LEGISLATIVE AUDIT DIVISION

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INDEPENDENT AUDITOR'S REPORT

The Public Employees' Retirement Board:

We have audited the accompanying Statement of Fiduciary Net Assets -Pension Trust Funds of the Public Employees' Retirement Board, a component unit of the state of Montana, as of June 30, 2003 and 2002, and the related Statement of Changes in Fiduciary Net Assets -Pension Trust Funds for the fiscal year then ended. These financial statements are the responsibility of the Public Employees' Retirement Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Retirement Board as of June 30, 2003 and 2002, and the changes in fiduciary net assets for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, the Schedule of Funding Progress, and the Schedule of Employer Contributions & Other Contributing Entities are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Public Employees' Retirement Board. The Schedules of Administrative Expenses, Investment Expenses, and Consultants; the Detail of Fiduciary Net Assets (PERS-DBRP and PERS-DBEd) and the Detail of Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability) as of June 30, 2003; and the related Detail of Changes in Fiduciary Net Assets (PERS-DBRP and PERS-DBEd) and the Detail of Changes in Fiduciary Net Assets (PERS-DCRP,

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PERS-DCEd and PERS-DC Disability) for the fiscal year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The Introductory Section, Investment Section, Actuarial Section, and Statistical Section listed in the foregoing table of contents are presented for the purpose of additional analysis and are not a required part of the financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The eight retirement systems administered by the Public Employees' Retirement Board have actuarial gains and losses smoothed over four years and only one fourth of each previous year's actuarial loss has been recognized in the amortization period as of July 1, 2002. The amortization period as of July 1, 2004, will include all the losses for fiscal year 2001, most of the losses for fiscal year 2002 and the investment income in fiscal year 2003. Because of this issue, there is uncertainty with respect to the adequacy of funding for the Public Employees' Retirement System – Defined Benefit Retirement Plan, the Game Wardens' and Peace Officers' Retirement System and the Sheriffs' Retirement System.

Respectfully submitted,

(Signature on File)

James Gillett, CPA
Deputy Legislative Auditor

November 6, 2003

Public Employees' Retirement Board

A Component Unit of the State of Montana

Management's Discussion and Analysis

This section presents management's discussion and analysis of the Montana Public Employees' Retirement Board's financial presentation and performance of the plans administered by the Board for the year ending June 30, 2003. It is presented as a narrative overview and analysis and should be read in conjunction with the Letter of Transmittal included in the Introductory Section, the financial statements and other information which are presented in the Financial Section of this Component Unit Financial Report.

Financial Highlights

- *The Montana Public Employees' Retirement Board's combined total net assets of the defined benefit plans increased by $172 million or 5.6 percent in fiscal year 2003. The increase was primarily due to the investment return in each of the retirement plans.*

- *The Montana Public Employees' Retirement Board's defined contribution plans combined total net assets increased by $27.8 million or 14.2 percent in fiscal year 2003. The total increase in Net Assets was due to the PERS-Defined Contribution Retirement Plan (DCRP) opening in fiscal year 2003 and an increase in investment income in the 457 plan.*

- *Revenues (additions to plan net assets) for the Board's defined benefit plans for fiscal year 2003 was $363 million, which includes member and employer contributions of $160 million and net investment income of $203 million.*

- *Revenues (additions to plan net assets) for the Board's defined contribution plans for fiscal year 2003 was $40 million, which includes member and employer contributions of $31 million and net investment income of $9 million.*

- *Expenses (deductions to plan net assets) for the Board's defined benefit plans increased from $162 million in fiscal year 2002 to $192 million in fiscal year 2003 or about 18.5%. The increase is primarily due to pension benefits and the contributions transferring to the DCRP and the Optional Retirement Plan (ORP).*

- *Expenses (deductions to plan net assets) for the Board's defined contribution plans decreased from $13.5 million in fiscal year 2002 to $12.8 million in fiscal year 2003 or about 4.6% less.*

- *The Montana Public Employees' Retirement Board's defined benefit plans funding objective is to meet long-term benefit obligations. As of July 1, 2002, the date of the latest actuarial valuation, the defined benefit plans were actuarially funded at an average of 93.6 percent. It is important to understand this measure reflects the actuarial value of the defined benefit plans' net assets, which exceeds the actual fair value published in the financial statements, due to smoothing market value gains and losses over four years.*

Management's Discussion and Analysis (cont)

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Public Employees' Retirement Board's (PERB) financial reporting which is comprised of the following components:

(1) Financial Statements
(2) Notes to the Financial Statements
(3) Required Supplementary Information

Collectively, this information presents the combined net assets held in trust for pension benefits for each of the plans administered by the Public Employees' Retirement Board as of June 30, 2003. This financial information also summarizes the combined changes in net assets held in trust for pension benefits for the year then ended. The information in each of these components is briefly summarized as follows:

(1) Financial Statements. For the fiscal year ended June 30, 2003, financial statements are presented for the fiduciary funds administered by the PERB. Fiduciary funds are used to account for resources held for the benefit of parties outside of the PERB. The fiduciary funds are held for participants in eight defined benefit plans and two defined contribution plans.

- The Statement of Fiduciary Net Assets is presented for the pension trust funds at June 30, 2003. These financial statements reflect the resources available to pay benefits to retirees and beneficiaries, at the end of the year reported.
- The Statement of Changes in Fiduciary Net Assets is presented for the pension trust funds for the year ended June 30, 2003. These financial statements reflect the changes in the resources available to pay benefits to retirees and beneficiaries, for the fiscal year 2003.

(2) Notes to the Financial Statements. The Notes to the Financial Statements provide additional information that is essential for a full understanding of the data provided in the financial statements. Information in the Notes to the Financial Statements is described following:

- Note A provides a summary of significant accounting policies, including the basis of accounting, property and equipment used in operations, methods used to value investments, summaries of our investment vendors and other significant accounting policies or explanations.
- Note B provides information about litigation.
- Note C describes the debt obligation of the PERS-DCRP. This is the implementation loan for the PERS-DCRP that is to be paid back over ten years and the inter-entity loan from the DB Education Fund that was used to pay the first principle and interest payment due to the cash position of the DCRP.
- Note D describes the plans' membership and descriptions of the plans administered by the Public Employees' Retirement Board. Summaries of benefits and contribution information are also provided.

(3) Required Supplementary Information. The required supplementary information consists of the schedules of funding status and required contributions and related notes concerning actuarial information of the defined benefit pension plans administered by the PERB.

Financial Analysis of the Systems – Defined Benefit Plans

Investments
The Montana Board of Investments (BOI), as authorized by state law, invests the defined benefit plans' assets in investment pools. Each plan owns an equity position in the pools and receives proportionate investment income from the pool in accordance with respective ownership. The investment pools are: Montana Domestic Equity Pool, Retirement Fund Bond Pool, Montana International Pool, Montana Short Term Investment Pool and Montana Private Equity Pool. Each plan's allocated share of the investment in the pools is shown in the Statement of Fiduciary Net Assets of the plan. Investment gains and losses are reported in the Statement of Changes in Fiduciary Net Assets.

Defined Benefit Plans Total Investments
At June 30, 2003, the PERB's defined benefit plans held total investments of $3.2 billion, an increase of $171.5 million from fiscal year 2002 investment totals. On the following pages are the schedules of Net Assets and Changes in Net Assets for the defined benefit plans.

Analysis of Individual Systems

PERS - DBRP and Education

The PERS-DBRP provides retirement, disability, and death benefits for covered employees of the State, university system and local governments and certain employees of the school districts. Member and employer contributions and earnings on investments fund the benefits of the plan. The PERS-DBRP and the Education Fund have been combined in these comparisons. The PERS-DBRP net assets held in trust for benefits at June 30, 2003 amounted to $2.7 billion, an increase of $131 million (5.1 percent) from 2.6 billion at June 30, 2002.

Additions to the PERS-DBRP net assets held in trust for benefits include employer, member, and state contributions and investment income. For the fiscal year ended June 30, contributions increased from $116.9 million in fiscal year 2002 to $120.6 million in fiscal year 2003, for an increase of $3.7 million (3.2 percent). Contributions increased because the number of participating employers increased. The plan recognized net investment income of $167.3 million for the fiscal year ended June 30, 2003 compared with a net investment loss of $201.4 million for the fiscal year ended June 30, 2002. The increases in investment income are mainly due to the turnaround of the equity market.

Deductions from the PERS-DBRP net assets held in trust for benefits primarily include retirement benefits, refunds, administrative expenses and miscellaneous expenses. For fiscal year 2003, benefits amounted to $122.2 million, an increase of $7.5 million (6.6 percent) from fiscal year 2002. The increase in benefit payments was due to the increase in benefit recipients and the guaranteed annual benefit adjustment. For fiscal year 2003, the costs of administering the plan's benefits amounted to $2.3 million, a decrease of $1.0 million (31.9 percent) from fiscal year 2002. The decrease in administrative expenses for the fiscal year 2003 was due to the conclusion of the initial education program to educate current PERS-DB members regarding

Management's Discussion and Analysis (cont)

the choice of the PERS-DBRP or the PERS-DCRP The increase in miscellaneous expenses was due to the transfers from the DBRP to the DCRP and the ORP, which began in fiscal year 2003.

An actuarial valuation of the PERS-DBRP assets and benefit obligations is performed every two years. At July 1, 2002, the date of the most recent actuarial valuation, the funded status of the plan decreased to 99.97 percent from 125.07 percent at July 1, 2000. The PERS-DBRP actuarial assets were less than actuarial liabilities by $983 thousand at July 1, 2002, compared with $569.9 million surplus at July 1, 2000. The decrease in funded status as of the last actuarial valuation is a result of the benefit enhancements enacted by the 2001 Legislature and the previous four-year investment performance.

MPORS

The MPORS provides retirement, disability and death benefits for municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Member, employer and state contributions and earnings on investments fund the benefits

Fiduciary Net Assets - Defined Benefit Plans

As of June 30, 2003 - and comparative totals for June 30, 2002

(dollars in thousands)

	PERS		MPORS		GWPORS		SRS	
	2003	2002	2003	2002	2003	2002	2003	2002
Assets:								
Cash and Receivables	96,310	85,220	9,232	9,032	2,030	2,033	4,183	4,349
Securities Lending Collateral	90,289	127,173	4,579	6,460	1,314	1,757	4,462	6,417
Investments	2,608,986	2,494,337	121,111	110,998	35,451	30,490	119,854	111,550
Property and Equipment	2	2						
Total Assets	2,795,587	2,706,732	134,922	126,490	38,795	34,280	128,499	122,316
Liabilities:								
Securities Lending Collateral	90,289	127,173	4,579	6,460	1,314	1,757	4,462	6,417
Other Payables	8,936	14,291	117	50	53	67	42	431
Total Liabilities	99,225	141,464	4,696	6,510	1,367	1,824	4,504	6,848
Total Net Assets	2,696,362	2,565,268	130,226	119,980	37,428	32,456	123,995	115,468

Changes In Fiduciary Net Assets - Defined Benefit Plans

For the year ended June 30, 2003 - and comparative totals for June 30, 2002

(dollars in thousands)

	PERS		MPORS		GWPORS		SRS	
	2003	2002	2003	2002	2003	2002	2003	2002
Additions:								
Contributions	120,615	116,910	12,554	11,973	4,128	3,441	5,177	4,928
Investment Income (Loss)	167,331	-201,365	8,530	-9,220	2,541	-2,564	8,164	-9,152
Total Additions	287,946	-84,455	21,084	2,753	6,669	877	13,341	-4,224
Deductions:								
Benefits	122,204	114,663	10,426	9,845	1,316	1,230	4,307	3,700
Refunds	10,446	11,048	373	348	355	331	475	446
Administrative Expenses	2,254	3,310	40	49	25	30	32	40
Miscellaneous Expenses	21,948							
Total Deductions	156,852	129,021	10,839	10,242	1,696	1,591	4,814	4,186
Incr/(Decr) in net assets	131,094	-213,476	10,245	-7,489	4,973	-714	8,527	-8,410

of the plan. The MPORS net assets held in trust for benefits at June 30, 2003 amounted to $130.2 million, an increase of $10.2 million (8.5 percent) from 120.0 million at June 30, 2002.

Additions to the MPORS net assets held in trust for benefits include employer, member, and state contributions and investment income. For the fiscal year ended June 30, contributions increased from $12.0 million in fiscal year 2002 to $12.6 million in fiscal year 2003, for an increase of $581 thousand (4.9 percent). Contributions increased because the number of members contributing to the plan increased and the total compensation reported for active members increased. The plan recognized net investment income of $8.5 million for the fiscal year ended June 30, 2003 compared with a net investment loss of $9.2 million for fiscal year ended June 30, 2002. The increase in investment income is mainly due to the turnaround of the equity market.

Deductions from the MPORS net assets held in trust for benefits mainly include retirement benefits, refunds and administrative expenses. For fiscal year 2003, benefits amounted to $10.4 million, an increase of $581 thousand (5.9 percent) from fiscal year 2002. The increase in benefit payments was due to the increase in benefit recipients and the guaranteed annual benefit adjustment.

JRS		HPORS		FURS		VFCA		TOTAL		Total %
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	Change
1,051	1,214	1,961	1,217	8,552	7,930	1,484	1,897	124,803	112,892	10.6%
1,436	2,067	2,570	3,800	4,346	6,163	606	1,012	109,602	154,849	-29.2%
38,745	36,139	69,185	66,580	115,176	105,987	16,446	15,021	3,124,954	2,971,102	5.2%
								2	2	0%
41,232	39,420	73,716	71,597	128,074	120,080	18,536	17,930	3,359,361	3,238,845	3.7%
1,437	2,067	2,570	3,800	4,346	6,163	606	1,012	109,603	154,849	-29.2%
3	4	15	20	31	43	30	133	9,227	15,039	-38.6%
1,440	2,071	2,585	3,820	4,377	6,206	636	1,145	118,830	169,888	-30.1%
39,792	37,349	71,131	67,777	123,697	113,874	17,900	16,785	3,240,531	3,068,957	5.6%

JRS		HPORS		FURS		VFCA		TOTAL		Total %
2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	Change
1,338	1,312	4,025	3,772	10,949	10,160	1,310	1,134	160,096	153,630	4.2%
2,661	-3,047	4,611	-5,590	8,066	-8,845	1,259	-591	203,163	-240,374	184.5%
3,999	-1,735	8,636	-1,818	19,015	1,315	2,569	543	363,259	-86,744	318.8%
1,552	1,566	5,160	4,861	9,081	8,507	1,412	1,411	155,458	145,783	6.6%
		108	149	83	81			11,840	12,403	-4.5%
3	4	15	20	30	39	30	38	2,429	3,530	-31.2%
						12	13	21,960	13	168820.2%
1,555	1,570	5,283	5,030	9,194	8,627	1,454	1,462	191,687	161,729	18.5%
2,444	-3,305	3,353	-6,848	9,821	-7,312	1,115	-919	171,572	-248,473	169.1%

Management's Discussion and Analysis (cont)

An actuarial valuation of MPORS assets and benefit obligations is performed every two years. At July 1, 2002, the date of the most recent actuarial valuation, the funded status of the plan decreased to 63.27 percent from 71.68 percent at July 1, 2000. The MPORS actuarial assets were less than actuarial liabilities by $83.3 million at July 1, 2002, compared with $51.3 million actuarial liabilities at July 1, 2000. The decrease in funded status as of the last actuarial valuation is a result of the benefit enhancements enacted by the 2001 Legislature and the previous four-year investment performance.

GWPORS

The GWPORS provides retirement, disability and death benefits for game wardens, warden supervisory personnel and state peace officers. Member and employer contributions and earnings on investments fund the benefits of the plan. The GWPORS net assets held in trust for benefits at June 30, 2003 amounted to $37.4 million, an increase of $5.0 million (15.3 percent) from 32.5 million at June 30, 2002.

Additions to the GWPORS net assets held in trust for benefits include member and employer contributions and investment income. For the fiscal year ended June 30, contributions increased from $3.4 million in fiscal year 2002 to $4.1 million in fiscal year 2003, for an increase of $687 thousand (20.0 percent). Contributions increased because the number of currently employed members for whom contributions are paid increased due to the expansion of membership to include all state peace officers. The plan recognized net investment income of $2.5 million for the fiscal year ended June 30, 2003 compared with a net investment loss of $2.6 million for the fiscal year ended June 30, 2002. The increase in investment income is mainly due to the turnaround of the equity market.

Deductions from the GWPORS net assets held in trust for benefits mainly include retirement benefits, refunds and administrative expenses. The increase in benefit payments was due to the increase in benefit recipients and the guaranteed annual benefit adjustment.

An actuarial valuation of the GWPORS assets and benefit obligations is performed every two years. At July 1, 2002, the date of the most recent actuarial valuation, the funded status of the plan decreased to 99.03 percent from 137.81 percent at July 1, 2000. The GWPORS actuarial assets were less than actuarial liabilities by $379 thousand at July 1, 2002, compared with $9.0 million actuarial surplus at July 1, 2000. The decrease in funded status as of the last actuarial valuation is a result of the benefit enhancements enacted by the 2001 Legislature, the expansion of the plan to all state peace officers and the previous four-year investment performance.

SRS

The SRS provides retirement, disability and death benefits for all Department of Justice criminal investigators hired after July 1, 1993 and all Montana sheriffs. Member and employer contributions and earnings on investments fund the benefits of the plan. The SRS net assets held in trust for benefits at June 30, 2003 amounted to $124.0 million, an increase of $8.5 million (7.4 percent) from 115.5 million at June 30, 2002.

Additions to the SRS net assets held in trust for benefits include member and employer contributions and investment income. For the fiscal year ended June 30, contributions increased from $4.9 million in fiscal year 2002 to $5.2 million in fiscal year 2003, for an increase of $249 thousand (5.0 percent). Contributions increased because the number of participating members contributing to the plan increased and the total compensation reported for active members increased. The plan recognized net investment income of $8.2 million for the fiscal year ended June 30, 2003 compared with a net investment loss of $9.2 million for the fiscal year ended June 30, 2002. The increase in investment income is mainly due to the turnaround of the equity market.

Deductions from the SRS net assets held in trust for benefits mainly include retirement benefits, refunds and administrative expenses. For fiscal year 2003, benefits amounted to $4.3 million, an increase of $607 thousand (16.4 percent) from fiscal year 2002. The increase in benefit payments was mainly due to an increase in benefit recipients.

An actuarial valuation of SRS assets and benefit obligations is performed every two years. At July 1, 2002, the date of the most recent actuarial valuation, the funded status of the plan decreased to 113.95 percent from 143.83 percent at July 1, 2000. The SRS actuarial assets were more than actuarial liabilities by $17.0 million at July 1, 2002, compared with $38.5 million actuarial surplus at July 1, 2000. The decrease in funded status as of the last actuarial valuation is a result of the benefit enhancements and member expansion enacted by the 2001 Legislature and the previous four-year investment performance.

JRS

The JRS provides retirement, disability and death benefits for all Montana judges of the district courts, justices of the Supreme Court and the Chief Water Judge. Member and employer contributions and earnings on investments fund the benefits of the plan. The JRS net assets held in trust for benefits at June 30, 2003 amounted to $39.8 million, an increase of $2.4 million (6.5 percent) from $37.3 million at June 30, 2002.

Additions to the JRS net assets held in trust for benefits include member and employer contributions and investment income. For the fiscal year ended June 30, 2003, contributions increased from $1.312 million in fiscal year 2002 to $1.338 million in fiscal year 2003, for an increase of $26 thousand (2.0 percent). Contributions increased because the total compensation reported for active members increased. The plan recognized net investment income of $2.7 million for the fiscal year ended June 30, 2003 compared with a net investment loss of $3.0 million for the fiscal year ended June 30, 2002. The increase in investment income is mainly due to the turnaround of the equity market.

Deductions from the JRS net assets held in trust for benefits mainly include retirement benefits and administrative expenses. For fiscal year 2003, benefits amounted to $1.552 million, a decrease of $14 thousand (1.0 percent) from fiscal year 2002. The decrease in benefit payments was due to the decrease in total number of benefit recipients.

An actuarial valuation of JRS assets and benefit obligations is performed every two years. At July 1, 2002, the date of the most recent actuarial valuation, the funded status of the plan decreased to 145.60 percent from 153.64 percent at July 1, 2000. The JRS actuarial assets were more than actuarial liabilities by $14.1 million at July 1, 2002, compared with $14.7 million actuarial surplus at July 1, 2000. The decrease in funded status as of the last actuarial valuation is a result of the previous four-year investment performance.

Management's Discussion and Analysis (cont)

HPORS

The HPORS provides retirement, disability and death benefits for members of the Montana Highway Patrol. Member and employer contributions, registration fees and earnings on investments fund the benefits of the plan. The HPORS net assets held in trust for benefits at June 30, 2003 amounted to $71.1 million, an increase of $3.4 million (4.9 percent) from 67.8 million at June 30, 2002.

Additions to the HPORS net assets held in trust for benefits include employer, and member contributions, registration fees and investment income. For the fiscal year ended June 30, contributions increased from $3.8 million in fiscal year 2002 to $4.0 million in fiscal year 2003, an increase of $253 thousand (6.7 percent). Contributions increased because the number of participating members contributing to the plan increased and because total compensation reported for active members increased. The plan recognized net investment income of $4.6 million for the fiscal year ended June 30, 2003 compared with a net investment loss of $5.6 million for the fiscal year ended June 30, 2002. The increase in investment income is mainly due to the turnaround in the equity market.

Deductions from the HPORS net assets held in trust for benefits mainly include retirement benefits, refunds and administrative expenses. For fiscal year 2003, benefits amounted to $5.2 million, an increase of $299 thousand (6.2 percent) from fiscal year 2002. The increase in benefit payments was due to the increase in benefit recipients and the guaranteed annual benefit adjustment.

An actuarial valuation of HPORS assets and benefit obligations is performed every two years. At July 1, 2002, the date of the most recent actuarial valuation, the funded status of the plan decreased to 86.17 percent from 101.85 percent at July 1, 2000. The HPORS actuarial assets were less than actuarial liabilities by $13.1 million at July 1, 2002, compared with $1.4 million actuarial surplus at July 1, 2000. The decrease in funded status as of the last actuarial valuation is a result of the benefit enhancements enacted by the 2001 Legislature and the previous four-year investment performance.

FURS

The FURS provides retirement, disability and death benefits for firefighters employed by first- and second-class cities and other cities that adopt the plan, and firefighters hired by the Montana Air National Guard on or after October 1, 2001. Member, employer, and state contributions and earnings on investments fund the benefits of the plan. The FURS net assets held in trust for benefits at June 30, 2003 amounted to $123.7 million, an increase of $9.8 million (8.6 percent) from 113.9 million at June 30, 2002.

Additions to the FURS net assets held in trust for benefits include employer, member, and state contributions and investment income. For the fiscal year ended June 30, contributions increased from $10.2 million in fiscal year 2002 to $10.9 million in fiscal year 2003, an increase of $789 thousand (7.8 percent). Contributions increased because the number of participating members contributing to the plan increased. Contributions also increased because total compensation reported for active members increased. The plan recognized net investment income of $8.1 million for the fiscal year ended June 30, 2003 compared with a net investment loss of $8.8 million for the fiscal year ended June 30, 2002. The increase in investment income is mainly due to the turnaround in the equity market.

Deductions from the FURS net assets held in trust for benefits mainly include retirement benefits, refunds and administrative expenses. For fiscal year 2003, benefits amounted to $9.1 million, an increase of $574 thousand (6.7 percent) from fiscal year 2002. The increase in benefit payments was due to the increase in benefit recipients and the guaranteed annual benefit adjustment.

An actuarial valuation of the FURS assets and benefit obligations is performed every two years. At July 1, 2002, the date of the most recent actuarial valuation, the funded status of the plan decreased to 68.9 percent from 76.08 percent at July 1, 2000. The FURS actuarial assets were less than actuarial liabilities by $61.6 million at July 1, 2002, compared with $38.8 million actuarial liability at July 1, 2000. The decrease in funded status as of the last actuarial valuation is a result of the benefit enhancements enacted by the 2001 Legislature and the previous four-year investment performance.

VFCA

The VFCA provides retirement, disability and death benefits for volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas. State contributions and earnings on investments fund the benefits of the plan. The VFCA net assets held in trust for benefits at June 30, 2003 amounted to $17.9 million, an increase of $1.1 million (6.6 percent) from $16.8 million at June 30, 2002.

Additions to the VFCA net assets held in trust for benefits include state contributions and investment income. For the fiscal year ended June 30, contributions increased from $1.1 million in fiscal year 2002 to $1.3 million in fiscal year 2003, an increase of $176 thousand (15.5 percent). Contributions increased because there was an increase in the fire insurance premium taxes collected. The plan recognized net investment income of $1.3 million for the fiscal year ended June 30, 2003 compared with a net investment loss of $591 thousand for the fiscal year ended June 30, 2002. The increase in investment income is mainly due to the turnaround in the equity market.

Deductions from the VFCA net assets held in trust for benefits mainly include retirement benefits, supplemental insurance payments and administrative expenses. For fiscal year 2003, benefits remained the same as 2002 at $1.4 million; the benefit remaining the same is mainly due to no change in the average annual benefit.

An actuarial valuation of the VFCA assets and benefit obligations is performed every two years. At July 1, 2002, the date of the most recent actuarial valuation, the funded status of the plan decreased to 71.82 percent from 106.07 percent at July 1, 2000. The VFCA actuarial assets were less than actuarial liabilities by $7.6 million at July 1, 2002, compared with $1.0 million actuarial surplus at July 1, 2000. The decrease in funded status as of the last actuarial valuation is a result of the benefit enhancements enacted by the 2001 Legislature and the previous four-year investment performance.

Actuarial Valuations and Funding Progress

An actuarial valuation of each of the PERB's defined benefit plans is performed every two years. At the date of the most recent actuarial valuation, July 1, 2002, the funded status of

Management's Discussion and Analysis (cont)

each of the plans is shown in the Schedule of Funding Progress on page 70.

The PERB funding objective is to meet long-term benefit obligations through investment income and contributions. Accordingly, the collection of employer and member contributions, and the income from investments provide the reserves needed to finance future retirement benefits. Since investment earnings are critical to the defined benefit plans' funding, the market decline and associated investment losses in fiscal year 2001 and fiscal year 2002 have deteriorated the plans' funding. The investment losses have reduced the assets available to pay previously incurred benefit obligations. The investment losses have increased the unfunded liability of the plans. The increased unfunded liability needs to be paid off within 30 years according to 19-2-409, MCA. The next valuation will be performed on July 1, 2004. That valuation will take into account the losses for fiscal year 2001 and most of the losses for fiscal year 2002. It will also take into account the investment income of $203 million for fiscal year 2003 and any differences between the actuarial assumptions and actual experience.

The PERB is concerned with the funding of three of the eight defined benefit retirement plans administered. The PERB is closely watching the PERS – Defined Benefit Retirement Plan (PERS-DBRP), the Game Wardens' and Peace Officers' Retirement System (GWPORS) and the Sheriffs' Retirement System (SRS). The PERB believes the unfunded liability of the PERS–DBRP will be amortized in 30 years, as required by statute. The GWPORS and the SRS statutory contribution rates are roughly the rate necessary to pay benefits, but appear insufficient to pay off unfunded liability. The parameters of these funding issues will be resolved with the July 1, 2004 valuation.

Funding ratios range from a high of 145.60 percent to a low of 63.27 percent. The Schedule of Funding Progress on page 70 shows the July 1, 2002 funding ratios compared with the ratios at July 1, 2000 and July 1, 1998. The table also shows the amount by which actuarial assets exceeded or fell short of actuarial liabilities. The funding ratio decline is a result of the overall investment performance of prior years and the benefit enhancements granted by the 2001 Legislature. The full impact of investment market downturn during 2001 and 2002 is not yet reflected in the funding status. At July 1, 2002, the actuarial value of assets exceeded the market value of assets by $611 million compared with a market value of assets exceeding the actuarial value of assets by $489 million at July 1, 2000.

Defined Contribution Plans

The MPERA administers two defined contribution plans: The Public Employees' Retirement System - defined contribution retirement plan (PERS-DCRP) and the Deferred Compensation (457) Plan. The schedules of Net Assets and Changes in Net Assets for the two defined contribution plans are on the following page.

PERS-DCRP

The PERS-DCRP is established under Section 401(a) of the Internal Revenue Code. This plan provides retirement benefits for plan members. This plan was available to all active PERS members effective July 1, 2002. The plan member and employer contributions

Fiduciary Net Assets - Defined Contribution Plans

As of June 30, 2003 - and comparative totals for June 30, 2002

(dollars in thousands)

	PERS-DCRP 2003	PERS-DCRP 2002	457-PLAN 2003	457-PLAN 2002	TOTAL 2003	TOTAL 2002	Total % Change
Assets:							
Cash and Receivables	7,246	535	3,479	2,358	10,725	2,893	270.7%
Securities Lending Collateral							
Investments	9,239		205,028	194,201	214,267	194,201	10.3%
Total Assets	16,485	535	208,507	196,559	224,992	197,094	14.2%
Liabilities:							
Securities Lending Collateral							
Other Payables	1,604	1,562	167	139	1,771	1,701	4.1%
Total Liabilities	1,604	1,562	167	139	1,771	1,701	4.1%
Total Net Assets	14,881	-1,027	208,340	196,420	223,221	195,393	14.2%

Changes In Fiduciary Net Assets - Defined Contribution Plans

For the year ended June 30, 2003 - and comparative totals for June 30, 2002

(dollars in thousands)

	PERS-DCRP 2003	PERS-DCRP 2002	457-PLAN 2003	457-PLAN 2002	TOTAL 2003	TOTAL 2002	Total % Change
Additions:							
Contributions	16,551		15,026	13,583	31,577	13,583	132.5%
Investment Income (Loss)	551	3	8,541	-4,434	9,092	-4,431	305.2%
Total Additions	17,102	3	23,567	9,149	40,669	9,152	344.4%
Deductions:							
Refunds	629		10,648	11,460	11,277	11,460	-1.6%
Administrative Expenses	552	445	218	242	770	687	12.0%
Miscellaneous Expenses	14		780	811	794	811	-2.1%
Prior Period Adjustment				496		496	-100.0%
Total Deductions	1,195	445	11,646	13,009	12,841	13,454	-4.6%
Incr/(Decr) in net assets	15,907	-442	11,921	-3,860	27,828	-4,302	746.9%

and earnings on investments fund the benefits of the plan.

The PERB has received a long-term Intercap loan through the Montana Department of Administration with the BOI to fund the plan start-up and implementation costs. As of June 30, 2003, the loan balance is $1.5 million. The term of the loan is ten years with interest payments beginning August 15, 2000, and principal payments beginning August 15, 2003.

The plan net assets held in trust for benefits at June 30, 2003 amounted to $14.8 million, an increase of $15.9 million from net assets at June 30, 2002.

Additions to the Defined Contribution Retirement Plan net assets held in trust for benefits include contributions and investment income. For fiscal year 2003, contributions were $16.6 million. This was the first year of the plan for contributions. The plan recognized net investment income of $551 thousand for fiscal year 2003.

Management's Discussion and Analysis (cont)

Deductions from the Defined Contribution Retirement Plan net assets mainly include member refunds, miscellaneous expenses and administrative expenses. For fiscal year 2003, refunds amounted to $629 thousand. For fiscal year 2003, the costs of administering the plan amounted to $552 thousand, an increase of $107 thousand (24.0 percent) from fiscal year 2002. The increase in administrative costs was mainly due to start up costs of getting the plan initiated and running properly in its first year of operation.

Deferred Compensation (457) Plan

The Deferred Compensation Plan is established under Section 457 of the Internal Revenue Code. This plan provides supplemental retirement benefits for plan participants. The Deferred Compensation Plan is funded by contributions and by investment earnings. The plan net assets held in trust for benefits at June 30, 2003 amounted to $208.5 million, an increase of $11.9 million (6.0 percent) from net assets at June 30, 2002.

Additions to the Deferred Compensation Plan net assets held in trust for benefits include contributions and investment income. For fiscal year 2003, contributions increased from those of fiscal year 2002 from $13.6 million to $15.0 million, an increase of $1.4 million (10.6 percent). Contributions increased because of increased contributions by current participants. The plan recognized net investment income of $8.5 million for fiscal year 2003 compared with a net investment loss of $4.4 million for fiscal year 2002. The increase in investment income is mainly due to the turnaround in the equity market.

Deductions from the Deferred Compensation Plan net assets mainly include member and beneficiary refunds, miscellaneous expenses and administrative expenses. For fiscal year 2003, refunds amounted to $10.6 million, a decrease of $812 thousand (7.0 percent) under fiscal year 2002.

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Public Employees' Retirement Board

A Component Unit of the State of Montana

Statement of Fiduciary Net Assets - Pension Trust Funds

as of June 30, 2003 - with comparative totals for June 30, 2002

	PERS-DBRP	MPORS	GWPORS	SRS	JRS	HPORS
Assets						
Cash and Short-term Investments	$ 80,051,069	1,551,066	1,877,272	3,298,255	889,422	1,610,613
Securities Lending Collateral (Note A3)	90,288,753	4,579,494	1,314,401	4,462,375	1,436,602	2,570,118
Receivables						
Interest	11,388,163	503,611	148,074	499,239	161,294	286,802
Accounts Receivable	4,229,597	378,391	5,015	288,204		3
Due from Other Funds	215,048			25,891		
Due from Primary Government	45,959	6,798,457				63,092
Notes Receivable	380,315			71,426		
Total Receivables	16,259,082	7,680,459	153,089	884,760	161,294	349,897
Investments, at fair value (Note A3)						
Montana Domestic Equity Pool (MDEP)	1,308,883,763	59,429,624	17,475,616	59,058,472	19,161,851	34,191,470
Montana Stock Pool (MTCP)						
Retirement Fund Bond Pool (RFBP)	804,470,236	43,872,923	12,920,683	43,639,134	14,045,793	25,177,487
Montana International Pool (MTIP)	225,346,965	10,832,775	2,996,381	10,249,759	3,294,445	5,883,354
Montana Private Equity Pool (MPEP)	150,960,074	6,975,233	2,058,250	6,906,435	2,242,927	3,932,967
Equity Index Fund	17					
Real Estate Investments	7,246,333					
Mortgages & Commercial Loans						
net of Accumulated Mortgage Discount	112,078,541					
Defined Contributions Fixed Investments						
Defined Contributions Variable Investments						
Deferred Compensation Life Insurance						
Total Investments	2,608,985,929	121,110,555	35,450,930	119,853,800	38,745,016	69,185,278
Property and Equipment, at cost,						
net of Accumulated Depreciation (Note A2)	1,898					
Total Assets	2,795,586,731	134,921,574	38,795,692	128,499,190	41,232,334	73,715,906
Liabilities						
Securities Lending Collateral Liability	90,288,753	4,579,494	1,314,401	4,462,375	1,436,602	2,570,118
Accounts Payable	2,890,264	51,575	19,639	8,995		
Due to Other Funds	5,512,947	63,978	24,740	32,065	3,255	15,300
Due to Primary Government	49,577					
Notes Payable (Note C)						
Deferred Revenue	243,323	1,111	8,279	605		
Compensated Absences	239,552	265				
Total Liabilities	99,224,416	4,696,423	1,367,059	4,504,040	1,439,857	2,585,418
Net Assets Held in Trust for Pension Benefits (see schedule of funding progress, page 70)	$ 2,696,362,315	130,225,151	37,428,633	123,995,150	39,792,477	71,130,488

The notes to the financial statements are an integral part of this statement.

Defined Benefit Pension Plans			Defined Contribution Plans				
FURS	VFCA	Total Defined Benefit Pension Plans	PERS-DCRP	457 Plan	Total Defined Contribution Plans	Total Pension Trust Funds 2003	Total Pension Trust Funds 2002
1,733,591	1,415,234	92,426,522	1,745,349	2,881,563	4,626,912	97,053,434	81,122,882
4,345,996	606,471	109,604,210				109,604,210	154,849,079
476,963	68,860	13,533,006				13,533,006	14,759,651
335,462		5,236,672	170	597,601	597,771	5,834,443	6,195,874
		240,939	5,500,000		5,500,000	5,740,939	826,725
6,006,253		12,913,761	95	69	164	12,913,925	12,383,977
		451,741				451,741	496,973
6,818,678	68,860	32,376,119	5,500,265	597,670	6,097,935	38,474,054	34,663,200
56,637,464	8,134,128	1,562,972,388				1,562,972,388	
							1,128,570,044
41,756,860	5,964,322	991,847,438				991,847,438	1,056,625,247
10,235,341	1,378,791	270,217,811				270,217,811	256,625,483
6,545,922	968,788	180,590,596				180,590,596	113,753,416
		17				17	230,050,585
		7,246,333				7,246,333	7,035,303
		112,078,541				112,078,541	178,441,866
			407,489	137,687,286	138,094,775	138,094,775	122,729,210
			8,831,476	67,328,712	76,160,188	76,160,188	71,459,943
				12,316	12,316	12,316	12,316
115,175,587	16,446,029	3,124,953,124	9,238,965	205,028,314	214,267,279	3,339,220,403	3,165,303,413
		1,898				1,898	2,359
128,073,852	18,536,594	3,359,361,873	16,484,579	208,507,547	224,992,126	3,584,353,999	3,435,940,933
4,345,996	606,471	109,604,210				109,604,210	154,849,079
		2,970,473	33,309	129,174	162,483	3,132,956	14,506,249
30,274	30,274	5,712,833	19,675	8,431	28,106	5,740,939	314,108
		49,577	6,609	6,868	13,477	63,054	141,057
			1,498,000		1,498,000	1,498,000	1,498,000
1,021		254,339				254,339	20,047
		239,817	46,568	22,035	68,603	308,420	261,093
4,377,291	636,745	118,831,249	1,604,161	166,508	1,770,669	120,601,918	171,589,633
123,696,561	17,899,849	3,240,530,624	14,880,418	208,341,039	223,221,457	3,463,752,081	3,264,351,300

Public Employees' Retirement Board

A Component Unit of the State of Montana

Statement of Changes in Fiduciary Net Assets- Pension Trust Funds

for the year ended June 30, 2003 - with comparative totals for June 30, 2002

	PERS-DBRP	MPORS	GWPORS	SRS	JRS	HPORS
Additions						
Contributions (Note D)						
Employer	$ 57,225,013	3,502,000	1,835,140	2,475,394	1,052,361	2,866,015
Plan Member	61,749,963	2,234,667	2,288,765	2,646,794	285,413	797,344
Membership Fees	161					
Interest Reserve Buyback	878,256	18,638	4,283	21,898		7,699
Retirement Incentive Program	371,473			33,000		
Registration Fee Collections						353,589
Miscellaneous Revenue	860					
State Contributions	388,954	6,798,457				
Nonvested Member Forfeitures						
Total Contributions	120,614,680	12,553,762	4,128,188	5,177,086	1,337,774	4,024,647
Investment Income (Note A3)						
Net Appreciation (Depreciation)						
in Fair Value of Investments	53,192,946	3,316,246	1,179,075	2,957,927	897,078	1,251,729
Interest	102,179,450	4,655,351	1,202,724	4,654,519	1,585,672	3,038,556
Dividends	15,050,658	689,895	196,044	680,025	219,132	395,063
Securities Gain (Loss)						
Securities Lending Income	1,628,745	83,359	23,371	81,582	26,217	47,361
	172,051,799	8,744,851	2,601,214	8,374,053	2,728,099	4,732,709
Less:						
Investment Expense	3,402,205	146,988	41,394	143,070	45,872	82,494
Securities Lending Rebate and Fees	1,318,407	68,067	19,149	66,795	21,484	38,801
	4,720,612	215,055	60,543	209,865	67,356	121,295
Net Investment Income	167,331,187	8,529,796	2,540,671	8,164,188	2,660,743	4,611,414
Total Additions	287,945,867	21,083,558	6,668,859	13,341,274	3,998,517	8,636,061
Deductions (Note D)						
Benefits	122,203,686	10,425,561	1,316,309	4,307,060	1,551,557	5,159,762
Refunds to Members	10,218,257	325,966	354,807	456,666		60,244
Refunds to Other Plans	228,340	46,750		18,211		47,496
Transfers to DCRP	15,990,427					
Transfers to ORP	5,957,197					
Supplemental Insurance Payments						
Administrative Expenses	2,253,814	40,160	24,740	32,065	3,255	15,300
Miscellaneous Expenses						
Total Deductions	156,851,721	10,838,437	1,695,856	4,814,002	1,554,812	5,282,802
Net Increase (Decrease)	131,094,146	10,245,121	4,973,003	8,527,272	2,443,705	3,353,259
Net Assets Held in Trust for Pension Benefits						
Beginning of Year	2,565,268,169	119,980,030	32,455,630	115,467,878	37,348,772	67,777,229
Prior Period Adjustment						
End of Year	$ 2,696,362,315	130,225,151	37,428,633	123,995,150	39,792,477	71,130,488

The notes to the financial statements are an integral part of this statement.

Defined Benefit Pension Plans			Defined Contribution Plans				
FURS	VFCA	Total Defined Benefit Pension Plans	PERS-DCRP	457 Plan	Total Defined Contribution Plans	Total Pension Trust Funds 2003	Total Pension Trust Funds 2002
2,802,156		71,758,079	6,129,909	44,218	6,174,127	77,932,206	69,985,124
2,138,781		72,141,727	10,389,320	14,725,241	25,114,561	97,256,288	82,542,491
		161				161	167
2,221		932,995				932,995	163,778
		404,473				404,473	188,962
		353,589				353,589	308,973
		860	661	256,406	257,067	257,927	223,389
6,006,253	1,310,088	14,503,752				14,503,752	13,800,938
			31,188		31,188	31,188	
10,949,411	1,310,088	160,095,636	16,551,078	15,025,865	31,576,943	191,672,579	167,213,822
3,135,586	564,887	66,495,474	439,327	1,711,971	2,151,298	68,646,772	(382,360,053)
4,397,325	617,831	122,331,428	111,535	7,227,214	7,338,749	129,670,177	123,858,273
657,600	94,048	17,982,465				17,982,465	16,992,833
							676,639
79,321	11,545	1,981,501				1,981,501	4,385,196
8,269,832	1,288,311	208,790,868	550,862	8,939,185	9,490,047	218,280,915	(236,447,112)
139,066	20,303	4,021,392		398,329	398,329	4,419,721	4,575,809
64,791	9,457	1,606,951				1,606,951	3,781,868
203,857	29,760	5,628,343		398,329	398,329	6,026,672	8,357,677
8,065,975	1,258,551	203,162,525	550,862	8,540,856	9,091,718	212,254,243	(244,804,789)
19,015,386	2,568,639	363,258,161	17,101,940	23,566,721	40,668,661	403,926,822	(77,590,967)
9,080,598	1,411,936	155,456,469				155,456,469	145,783,245
82,765		11,498,705	628,884	10,648,173	11,277,057	22,775,762	23,424,213
		340,797				340,797	438,608
		15,990,427				15,990,427	
		5,957,197				5,957,197	
	12,000	12,000				12,000	12,675
30,274	30,274	2,429,882	551,734	217,825	769,559	3,199,441	4,218,397
			14,156	779,792	793,948	793,948	810,882
9,193,637	1,454,210	191,685,477	1,194,774	11,645,790	12,840,564	204,526,041	174,688,020
9,821,749	1,114,429	171,572,684	15,907,166	11,920,931	27,828,097	199,400,781	(252,278,987)
113,874,812	16,785,420	3,068,957,940	(1,026,748)	196,420,108	195,393,360	3,264,351,300	3,517,126,394
							(496,107)
123,696,561	17,899,849	3,240,530,624	14,880,418	208,341,039	223,221,457	3,463,752,081	3,264,351,300

Public Employees' Retirement Board

A Component Unit of the State of Montana

Notes to the Financial Statements

for the Fiscal Years Ended June 30, 2003 and 2002

The Public Employees' Retirement Board (PERB) administers ten retirement plans and the related member education plans. The retirement plans are eight defined benefit plans and two defined contribution plans. The *defined benefit* retirement plans are the Public Employees' Retirement System (PERS-DBRP), Municipal Police Officers' Retirement System (MPORS), Game Wardens' and Peace Officers' Retirement System (GWPORS), Sheriffs' Retirement System (SRS), Judges' Retirement System (JRS), Highway Patrol Officers' Retirement System (HPORS), Firefighters' Unified Retirement System (FURS), and the Volunteer Firefighters' Compensation Act (VFCA). The *defined contribution* retirement plans are the Public Employees' Retirement System (PERS-DCRP) and the Deferred Compensation (IRC § 457) Plan. The PERS-DCRP was implemented as of July 1, 2002. Eligible active members of the PERS, as of this date, could elect to join this plan and for those members the window closed June 30, 2003. All new hires to the PERS after July 1, 2002 have a twelve-month window from their date of hire to file an election. The Deferred Compensation Plan is available to employees of the state, university and local subdivisions that contract with the plan.

PERS members are provided member education as a tool to help them decide between participation in the Defined Benefit Retirement Plan (PERS-DBRP) or the Defined Contribution Retirement Plan (PERS-DCRP). If members are employees of the university system they have a third choice, the Optional Retirement Program (ORP). The plan choice is a one-time irrevocable election. Education is also available for the members who choose the PERS-DCRP. This education includes information on investment choices. A defined contribution education fund was established as of July 1, 2002 to fund this education.

The assets of each plan are maintained separately, including member education funds, and may be used only for the payment of benefits to the members of the appropriate plan and to pay administrative expenses of the appropriate plan, in accordance with the terms of each plan as prescribed in Title 19, of the Montana Code Annotated (MCA). The financial statements are presented by combining the PERS-DBRP and the DBRP Education fund and by combining the PERS-DCRP, the DCRP Education Fund and the Disability Fund. A presentation of each individual fund is shown at the end of the financial section.

A. Summary of Significant Accounting Policies

1. Basis of Accounting

The PERB is a discretely presented component unit Pension Trust Fund of the State of Montana financial reporting entity. The Montana Public Employee Retirement Administration (MPERA), staff of the PERB, prepares the accounting records and financial statements for the fiduciary/pension trust funds using the accrual basis of accounting. For the pension trust funds, member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Revenues are recognized in the accounting period in which they are earned and become measurable. Benefits and refunds are recognized in the accounting period in which they are due and payable. Expenses are recognized in the period incurred. Administrative expenses are financed through investment earnings on the pension trust fund in each plan. Interfund receivables and payables exist at year-end because all defined benefit administrative expenses are accounted for within PERS-DBRP and then allocated to the other defined benefit plans at year-end. Receivables and payables were also recorded this year for the transfer of participant accounts from the PERS-DBRP to the PERS-DCRP and ORP in the amounts of $5.5 million and $2 million, respectively. Elections received at the end of June 2003 were valid for fiscal year 2003 but because of requirements of processing an election form, the account balances could not be transferred until July 2003. MPERA presented these receivables and payables because this is a major point of interest this fiscal year with the start up of the PERS-DCRP, and because this will give the financial statement user a more accurate picture of the DC plan financial status and its impact. Participants of the deferred compensation (457) plan are charged fees based on individual account balances. The vendor withholds fees and after payment of the vendor's contractual expenses, the excess fees are submitted to the PERB. The excess fees, recorded as *Miscellaneous Revenue* in the financial statements, are used to pay the Board's deferred compensation related administrative expenses.

2. PROPERTY AND EQUIPMENT USED IN OPERATIONS

Equipment, valued at $5,000 or more, is recorded at cost less straight-line depreciation over the estimated useful life of five to ten years. Equipment under $5,000 is expensed in the year purchased.

3. METHOD USED TO VALUE INVESTMENTS

Defined benefit retirement plan assets are invested on behalf of the plans by the Montana Board of Investments (BOI), Department of Commerce. Investments are purchased in accordance with the statutorily and constitutionally mandated "prudent expert principle." Investments are reported at fair value. As of June 30, 2003, there were five major diversified pools, the same number as in fiscal year 2002, Montana Short Term Investment Pool (STIP), Retirement Funds Bond Pool (RFBP), Montana International Pool (MTIP), Montana Private Equity Pool (MPEP) and the Montana Domestic Equity Pool (MDEP). The Montana Stock Pool (MTCP) was closed in fiscal year 2003 and the MDEP became effective May 1, 2003. It is similar to other pools currently managed by the BOI. The MDEP affords investors a more diversified exposure to the U.S. equity market by including small and mid-cap companies and reduces volatility by incorporating an index component to the domestic equity portfolio. Participants in MTCP were automatically transferred into the new pool.

The PERS-DCRP and the deferred compensation plan's fixed assets were invested and managed on behalf of the plan by Pacific Investment Management Company (PIMCO)/State Street Kansas City

(SSKC). The third party record keeper, Great West Life & Annuity Insurance Co., tracks and reports the daily trading and valuations of all investment options including the assets held by the individual mutual fund companies. Investments are reported at fair value as of June 30, 2003.

The following are the PERB summaries of the BOI's fiscal year end statements, the PIMCO/SSKC contract and a statement about the variable investments.

STIP portfolio may include asset-backed securities, commercial paper, corporate and government securities, repurchase agreements and variable-rate (floating-rate) instruments. These securities provide a diversified portfolio earning a competitive total rate of return. Funds may be invested for relatively short periods. State agencies are legally required to invest in STIP and the PERB elects to have all STIP income automatically reinvested. Investments are reported at fair value based on market prices supplied to the BOI by various pricing services. The unit value is fixed at $1.00. A purchased unit earns income on the purchase date and ceases to earn income on the day before the unit is sold. STIP income reflects the monthly earnings of the STIP portfolio and is distributed on the first calendar day of the month, with the exception of the June distribution. Income for June is distributed on the last calendar day of the month. Administrative expenses incurred by the BOI are charged daily to STIP based on their expenses applicable to STIP. STIP investments are required to have the highest rating in the short term category by any Nationally Recognized Statistical Rating Organization. STIP is considered an external investment pool per the Governmental Accounting Standards Board (GASB) Statement No. 31 and is classified as a "2a7-like" pool. STIP is not registered with the Securities and Exchange Commission (SEC) but does operate in a manner consistent with SEC rules. *Disclosure about Derivatives:* STIP holds two types of securities that are required to be disclosed per the GASB: 1) Asset-backed securities are collateralized by a pool of mortgage and non-mortgage assets pledged by the issuer. 2) Variable-rate (floating-rate) securities are sensitive to interest rate changes. There are no legal risks that the BOI is aware of regarding any STIP investments.

MDEP portfolio may include common stock, equity index, preferred stock, convertible equity securities and equity derivatives. The MDEP was established in April 2003. Effective May 1, 2003, the Public Employees', Municipal Police Officers', Game Wardens' and Peace Officers', Sheriffs', Judges', Highway Patrol Officers', Volunteer Firefighters' and Firefighters' Unified retirement funds transferred all the Barclays Global Investors (BGI) S&P 500 Equity Index Fund A and the Dimensional Fund Advisors (DFA) U.S. Small Cap Trust investments totaling $740 million, at cost, from the All Other Funds portfolio to the new pool. The pension and endowment funds also exchanged their investment in the Montana Stock Pool (MTCP) for units in the new MDEP. The MDEP, as an internal investment pool, invested its excess cash, on creation, in STIP, an external investment pool. In July 2003, the STIP account was closed and a Stock Performance Index Futures Fund (SPIFF) account was opened to securitize MDEP cash by investing in an equity derivative. Investments are presented at fair value. Equity investments, on valuation date, are stated at the closing price of the security's primary exchange. The increase in the fair and carrying values of the MDEP portfolio as of June 30, 2003 as compared to fair and carrying values of the MTCP portfolio as of June 30, 2002 is attributed, primarily, to the $740 million transfer, at cost, of the BGI and DFA investments to the MDEP on May 1, 2003. Since January 2003, MTCP unit values are calculated weekly and at the close of the last business day of the month. Depending on stock market conditions and the investment officer's decision, MDEP participants may then buy or sell units on the first calendar day of each month. MDEP/MTCP security transactions are recorded as of trade date rather than settlement date. Because of this generally accepted practice, the MDEP/MTCP portfolio at June 30 may include receivables from brokers for securities sold but not delivered, and payables to brokers for securities purchased but not received.

On October 11, 2002, the BOI received a summons and complaint regarding the bankruptcy of Owens-Corning. The company seeks a determination that the dividend payments paid from October 1996 through July 2000 represent "fraudulent transfers under Chapter 11 Bankruptcy provisions and applicable state law, and are, therefore, voidable". The complaint states the BOI was the "recipient of dividends in the amount of $357,099 for the relevant period". The BOI has prepared a response to the complaint.

RFBP portfolio includes corporate asset-backed, other corporate, U.S. government mortgage-backed, U.S. government and Yankee securities and cash investments. RFBP investments are presented at fair value. Fair values are determined, primarily, by reference to fair prices supplied to the BOI by its custodial bank, State Street Bank and Trust. Premiums and discounts are amortized/accreted using the straight-line or scientific method to the call, average life or maturity date of the securities. Unit values are calculated weekly and at month end, based on portfolio pricing, to allow for participant transactions to occur as determined by the BOI's Investment Officer. The June 30, 2003 unit value of $110.84 increased from the June 30, 2002 unit value of $103.56. Interest rates declined during the fiscal year, which has the effect of increasing bond prices and the pool unit value. Accumulated income is distributed monthly on the first calendar day of the month. Realized portfolio gains/losses are distributed at least annually. Administrative expenses incurred by the BOI are charged daily to RFBP based on the BOI's expenses applicable to RFBP. *Disclosure about Derivatives*: The RFBP portfolio includes structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). These securities are required to be disclosed per the GASB. REMICs are pass-through vehicles for multiclass mortgage-backed securities. Some REMICs are principal-only strips (POs) and interest-only strips (IOs).

As of June 30, 2003 and June 30, 2002, Enron Corp., and Burlington Industries, Inc. presented legal and higher credit risks to the BOI. The RFBP holds a $7 million par 6.40% Enron bond maturing July 15, 2006 and a $7 million par 6.95% Enron bond maturing July 15, 2028. The combined book value of these securities was $13.5 million as of November 30, 2001. On December 12, 2001, the Enron Corp. filed for Chapter 11 bankruptcy protection. Accordingly, the November

2001 book value for the two issues was reduced to $5.6 million as of June 30, 2002. In October 2002, the book value was reduced to $2.8 million for both issues. In July 2003, both issues were sold, on the market, for a total of $2.36 million. The BOI owns a Burlington Industries, Inc., $6 million par, 7.25% bond maturing September 15, 2005. In September 2000, the company announced a reduction of stockholders equity. Due to an increasing senior bank line and declining credit trend, the bond ratings for this issue were downgraded, in May 2001, by the Moody's and Standard & Poor's rating agencies. During fiscal year 2001, the book value of Burlington Industries Inc. was reduced from the August 31, 2000 book value of $5.6 million to $2.4 million. Due to the company's filing for Chapter 11 bankruptcy protection on November 11, 2001, the book value was reduced to $1.2 million. In October 2003, Burlington Industries, Inc. received court approval to sell its assets. This sale is expected to close in November 2003. Under the company's recovery plan, the BOI will receive cash for its unsecured claim.

As of June 30, 2002, Rite Aid and WorldCom Inc. presented a higher credit risk to the BOI. The RFBP owned a Rite Aid $7 million par, 7.13% bond maturing January 15, 2007. In May 2000, the BOI was subordinated to a secured bank line of credit on this issue and the bond ratings were downgraded by the Moody's and Standard & Poor's bond ratings agencies. Based on this subordination and ratings downgrade, the book value was reduced to $5.6 million as of June 30, 2000. During fiscal year 2001, the book value was further reduced to $5.2 million. Due to an improving credit trend, amortization was resumed in June 2001. The book value of this security at June 30, 2002 was $5.5 million. As of June 30, 2002, Rite Aid did not represent a credit risk. In December 2002, this bond was sold, on the market, for $5 million principal plus interest of $206,427. The RFBP portfolio included a $6 million par, 6.95% WorldCom Inc. bond maturing August 15, 2028. The book value of this bond, originally purchased at a discount, was $5.5 million on June 30, 2002. On July 21, 2002, WorldCom Inc. filed for Chapter 11 bankruptcy protection. As of July 31, 2002, the reduced book value was $2.4 million. On November 7, 2002, the Attorney General for the State of Montana filed a lawsuit against certain WorldCom executives, directors and financial institutions associated with WorldCom such as Arthur Andersen and CitiGroup. The lawsuit, filed in Lewis and Clark County, Montana, alleges that the defendants filed "false and misleading registration statements" relating to the purchase of the bonds by the Montana Board of Investments. In December 2002, this bond was sold, on the market, for $1.5 million.

The BOI received a summons and complaint, dated September 3, 2002, regarding the sale of a Pennzoil Quaker State, $5 million par, 6.75% corporate bond maturing April 1, 2009. Deutsche Bank Securities claims a "breach of contract" for the March 25, 2002 sale of the bond at a price of $94.669 plus accrued interest. Deutsche Bank Securities seeks damages of $538,632 for the additional costs incurred to acquire the bond from third parties, plus any statutory interest, costs and expenses. On October 1, 2002, Shell Oil Company acquired Pennzoil and subsequently announced a public tender of Pennzoil Quaker State debt. The BOI tendered the Pennzoil Quaker State holdings on October 8, 2002 at a price of $113.099. The tender was accepted with a settlement date of November 1, 2002. On November 4, 2002, the BOI received $5.7 million in principal and interest plus $150,000 as a consent fee.

MTIP portfolio includes equities in five funds - an internally managed fund, BOI Internal International; and four externally managed funds: Pyrford International, Schroder Investment Management NA, SG Yamaichi Asset Management Co., formerly SG Pacific Asset Management Inc. and Barclays Global Investors. The five funds invest in securities of foreign-based corporations listed on legal and recognized foreign exchanges as well as domestic exchanges. Because transactions are recorded as of the trade date rather than settlement date, the MTIP portfolio may include receivables from brokers for securities sold, but not delivered, and payables to brokers for securities purchased, but not received. Investments are presented at current U.S. dollar value after conversion from foreign currency by the custodial bank, State Street Bank and Trust. The five funds' cash, receivables, fair value of investment securities, other assets and liabilities are translated into U. S. dollars at the Interactive Data Control 11:00 am EST exchange rate as of the balance sheet date. Unit values are calculated weekly and once a month at the close of the last business day of the month, based upon the fair value of the MTIP equity holdings, other assets and liabilities. Based on the BOI Investment Officer's decision, participants are allowed to buy or sell units on the first business day of each month. Realized gains/losses from the sale of securities and related foreign exchange transactions are retained by each fund. MTIP income is distributed at least quarterly to the retirement funds, net of external manager fees and administrative expenses, on the first business day of the following month. On July 1, 2003, the BOI funded MTIP with a $35 million purchase in the State Street Stock Performance Index Futures Fund (SPIFF). SPIFF shares were subsequently sold to fund $25 million to the BGI-MSCI Europe Index Fund on July 3, 2003. On October 30, 2003, the BOI voted to replace SG Yamaichi Asset Management, Co. as an active manager with Nomura Asset Management U.S.A., Inc. The change is effective December 1, 2003.

MPEP portfolio includes venture capital, leveraged buyout, mezzanine, distressed debt, special situation and secondary investments. The MPEP was established in April 2002 to allow retirement funds the opportunity to participate in the venture capital and leveraged buyout markets and other private equity investments via a diversified pool. The BOI chose to securitize MPEP cash by investing in an equity derivative, the State Street Stock Performance Index Futures Fund (SPIFF). Given the complexity and specialization of private equity investment, the BOI contracts with six private equity managers. The private equity managers include Adams Street Partners (formerly Brinson Partners); Kohlberg, Kravis, Roberts and Company (KKR); Welsh Carson Anderson and Stowe; Madison Dearborn Partners; Lexington Partners; and Oaktree Capital Management. Investments are presented at fair value and because no recognized market exists for private equity investment, the investments, on valuation date, are stated at the fair value reported in the most recent external managers' valuation reports. Carrying value represents the private equity security purchase price. MPEP security transactions are recorded as of trade date rather than settlement date; therefore, the MPEP portfolio at June 30 may include receivables from brokers for securities sold but not delivered, and payables to brokers for securities purchased but not received. Unit values are calculated at month end and participant transactions will most likely occur on a quarterly basis. Administrative expenses incurred by the BOI are charged daily to the MPEP based on the BOI's expenses applicable to MPEP. Based on the BOI Investment Officer's decision, participants are allowed to buy, reinvest or sell units on the first business day of each month. MPEP does not participate in security lending. Portfolio diversification of risk is to be achieved through multiple partnership relationships and investments diversified by time, financing stage, industry sector, investment size and geographical region. Private equity investments are recognized as investments with a higher degree of risk with a higher return potential. Private equity investments are long-term, by design, and extremely illiquid. Private equity investments typically have a low correlation relative to other investment asset classes and should contribute to reduction of portfolio risk. The Montana BOI is a limited partner in the private equity partnership of O'Donnell & Masur L.P., which invested in Gardiner Communications, Inc. All partners received a Notice of Liability from the Internal Revenue Service claiming unpaid federal corporate taxes for Gardiner Communications, Inc. As a recipient of the distributions on the sale and dissolution of Gardiner Communications, Inc., the BOI faces potential liability. O'Donnell & Masur L.P. has retained legal counsel to represent all partners receiving a Notice of Liability. On September 5, 2003, legal counsel filed a petition on the Montana BOI's behalf in U.S. Tax Court to perfect the right to contest this matter.

Other Investments for the pension plans include equity index, real estate, mortgages and loans. Effective May 1, 2002, all the venture capital and leveraged buyout investments totaling $159.8 million, at cost, were transferred to the new MPEP. Effective May 1, 2003, all the equity index investments totaling $740 million, at cost, were transferred to the new MDEP. The Montana mortgages and loans receivable, included in the Net Investments Managed at Fair Value, represent residential mortgages and multifamily commercial loans. Real estate investments held, in part, for the PERS include buildings at 100 North Park Avenue in Helena, MT and 2401 Colonial Drive in Helena, MT; property located on California Street in Helena, MT; and an office building to be constructed in Bozeman, MT. The BOI also holds the building located at 1712 Ninth Avenue in Helena, MT for the sole benefit of the PERS. The real estate investments and residential and multi-family mortgages are valued based on a discounted cash flow. Premiums and discounts are amortized/accreted using the straight-line or interest method to the call, average life or maturity date of the securities. All other investments are presented at fair value. Fair values are determined, primarily, by reference to fair value prices supplied to the BOI by its custodial bank, State Street Bank and Trust. As of June 30, 2003 and 2002, there were no uncollectible account balances for Montana mortgages and loans receivable; however, during fiscal year 2002, the BOI staff wrote off loan principal balances in the total amount of $1,794,968. In fiscal year 2003, the sale of pool units from the MPEP, TFBP, RFBP and MTCP generated a net gain to participants of $41 million.

Securities Lending, governed under the provisions of state statutes, authorizes the custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. This is accomplished by the BOI via a Securities Lending Authorization Agreement. During the period the securities are on loan, the BOI receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned security and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The BOI retains all rights and risks of ownership during the loan period. During fiscal years 2003 and 2002, State Street Bank and Trust loaned, on behalf of the BOI, certain securities held by State Street Bank and Trust, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit. State Street Bank and Trust does not have the ability to pledge or sell collateral securities unless the borrower defaults. The BOI did not impose any restrictions during fiscal year 2003 and 2002 on the amount of the loans that State Street Bank and Trust made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal years 2003 and 2002. Moreover, there were no losses during fiscal years 2003 and 2002 resulting from a default of the borrowers or State Street. During fiscal years 2003 and 2002, the BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust. The relationship between the average maturities of the investment pool and the BOI's loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the BOI could not determine. On June 30, 2003 and June 30, 2002, the BOI had no credit risk exposure to borrowers.

Fixed investments are administered through outside vendors Pacific Investment Management Company (PIMCO) and custodial bank State Street Bank Kansas City (SSKC). The PIMCO/SSKC fixed investment portfolio is benchmarked against the Lehman Intermediate Government/Credit/Yankee index with a duration not to exceed four years. The minimum average portfolio quality must be an A-rating; the minimum issue quality must be a BB-rating and the minimum commercial paper quality must be A2/P2. The quality ratings applied are the higher of Moody's, Standard & Poor or Fitch. PIMCO has the discretion to invest in a broad array of public and private asset classes and investment vehicles including: money market instruments; U.S. Treasury and Agency notes and bonds; municipal bonds; corporate securities; Yankee and Euro bonds; mortgage-backed securities; mortgage derivatives; asset-backed securities; convertible securities; non-U.S. dollar denominated securities; non-leveraged structured notes; futures; options; swaps; credit default swaps and PIMCO pooled funds. PIMCO may not invest in: caps and floors; preferred stock; emerging market securities; event-linked bonds and bank loans.

Variable investments are held and managed by a selection of retail and institutional mutual funds, which cover all standard asset classes and categories. The selection of offered mutual funds is designed to provide plan participants with the ability to diversify and meet their individual investment goals and strategies. The PERB, with the advice of the statutorily created Employee Investment Advisory Council and the assistance of an independent contracted third-party consultant and investment analyst, conducts an annual review of the offered mutual funds. During the annual review, the PERB may decide to retain, replace or place in a watch status, any of the offered mutual funds. The goal of the annual review is to ensure the offered mutual funds meet standards established in the Investment Policy Statement adopted by the PERB. Mutual Funds are listed on pages 62 and 65 or a listing can be obtained by contacting the Montana Public Employee Retirement Administration.

B. LITIGATION

Each of the plans administered by the PERB may be involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management and legal counsel, the disposition of the matters will not have a material, adverse effect on any plan's financial position as a whole.

C. DEBT OBLIGATIONS

The PERS defined contribution retirement plan has an implementation loan through the Department of Administration, with the BOI, that is scheduled to be repaid over a period of ten years. Five draws were taken in the total amount of $1,498,000. Interest repayments began immediately following the draws. Principal repayments began August 15, 2003, the year following the DCRP implementation date. The interest rate is variable and changes every February, impacting the interest due on the outstanding principal balance. An inter-entity loan was taken from the DB Education Fund on August 18, 2003 to help cover the costs of the DCRP expenses. The inter-entity loan is due in two years and interest will be repaid at the same rate as STIP. Debt service requirements (principal & interest) for the defined contribution plan are explained in the following two charts:

Schedule of Debt Repayment
Implementation Loan

Fiscal Year Ended	Rate*	Principal	Interest	Total
2004	2.850%	$ 181,450.48	$ 41,400.02	$ 222,850.50
2005	2.850%	189,551.35	36,275.53	225,826.88
2006	2.850%	198,050.89	30,709.57	228,760.46
2007	2.850%	206,946.00	25,002.48	231,948.48
2008	2.850%	216,266.57	19,038.90	235,305.47
2009-2010	2.850%	505,734.72	19,139.57	524,874.29
		$ 1,498,000.00		$ 1,669,566.08

* Interest rate is variable. As of June 30, 2003 the interest rate was 2.850%

Schedule of Debt Repayment

Inter-Entity Loan

Fiscal Year Ended	Rate*	Principal	Interest	Total
2005	2.85%	$ 28,500.00	$ 3,249.00	$ 31,749.00
2006	2.85%	85,500.00	2,436.75	87,936.75
		$ 114,000.00		$ 119,685.75

*Interest rate is variable. As of June 30, 2003 the interest rate was 2.850%

D. Plan Membership, Descriptions and Contribution Information

The plans are established and amended statutorily by the Legislature. In all defined benefit plans (except VFCA), if a member leaves covered employment before retirement, the member contributions plus accrued interest may be refunded to the member. If a member returns to service and repays the withdrawn contributions plus the interest the contributions would have earned had they remained on deposit, membership service is fully restored.

Membership of each plan as of June 30, 2003 and June 30, 2002 is detailed in the following charts:

PERS-DBRP Membership

	2003	2002		2003	2002
Number of participating employers	521	515			
Active plan members	28,604	29,808	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	13,782	13,498
Vested	2,231	2,150	Disability Retirements	335	344
Non-vested	9,070	10,944	Survivor Benefits	284	274
	11,301	13,094		14,401	14,116

MPORS Membership

	2003	2002		2003	2002
Number of participating employers	22	22			
Active plan members	601	585	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	524	510
Vested	17	18	Disability Retirements	13	15
Non-vested	42	71	Survivor Benefits	28	29
	59	89		565	554

GWPORS Membership

	2003	2002		2003	2002
Number of participating employers	8	8			
Active plan members	664	609	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	78	75
Vested	11	9	Disability Retirements	1	1
Non-vested	90	83	Survivor Benefits	3	3
	101	92		82	79

SRS Membership

	2003	2002		2003	2002
Number of participating employers	56	56			
Active plan members	661	642	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	260	235
Vested	39	35	Disability Retirements	33	31
Non-vested	94	153	Survivor Benefits	13	14
	133	188		306	280

JRS Membership

	2003	2002		2003	2002
Number of participating employers	1	1			
Active plan members	49	48	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	48	49
Vested	4	2	Disability Retirements	0	0
Non-vested	0	0	Survivor Benefits	2	2
	4	2		50	51

HPORS Membership

	2003	2002		2003	2002
Number of participating employers	1	1			
Active plan members	201	194	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	250	246
Vested	7	7	Disability Retirements	8	9
Non-vested	9	13	Survivor Benefits	9	10
	16	20		267	265

FURS Membership

	2003	2002		2003	2002
Number of participating employers	16	16			
Active plan members	441	437	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits or a refund			Service Retirements	451	448
Vested	10	6	Disability Retirements	4	6
Non-vested	50	59	Survivor Benefits	25	27
	60	65		480	481

VFCA Membership

	2003	2002		2003	2002
Active plan members	2,629	2,609	Retirees and beneficiaries receiving benefits		
Terminated plan members entitled to but not yet receiving benefits			Service Retirements	917	880
Vested	679	693	Disability Retirements	0	0
			Survivor Benefits	4	4
				921	884

PERS-DCRP Membership*

	2003		2003
Number of participating employers	189		
Active plan members	823	Retirees and beneficiaries receiving benefits	
Terminated plan members entitled to but not yet receiving benefits or a refund		Service Retirements	0
Vested	24	Disability Retirements	0
Non-vested	19	Survivor Benefits	0
*implemented July 1, 2002	43		0

Deferred Compensation (457) Membership

	2003	2002		2003	2002
Number of participating employers	9	8	Number of participating plan members	7,750	7,872
Number of participating employers that provide contributions on members' behalf	1	1	Number of participating plan members that are actively contributing to their deferred compensation accounts	5,305	5,319

Public Employees' Retirement System-DBRP

Plan Description: The PERS-defined benefit retirement plan (DBRP) is a multiple-employer, cost-sharing plan established July 1, 1945, and governed by Title 19, chapters 2 & 3, Montana Code Annotated (MCA). This plan covers the State, university system, local governments and certain employees of the school districts.

All new hires are initially members of the PERS-DBRP. New hires have a 12-month window during which they may choose to remain in the PERS-DBRP or join the PERS-DCRP. Members may not be active members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable. All new hires of the universities also have a third option to join the university system's Optional Retirement Program (ORP). For members that choose to join the PERS-DCRP or the ORP, a percentage of the employer contribution will be used to maintain the funding of the defined benefit plan.

The PERS-DBRP provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are established by state law and can only be amended by the Legislature. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows:

PERS-DBRP Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months

Years of service required and/or eligible age for benefit
Service retirement:
- 30 years, any age;
- Age 60, 5 years of service; or
- Age 65, regardless of service

Early retirement, actuarially reduced:
- Age 50, 5 years of service; or
- Any age, 25 years of service

Vesting 5 years

Monthly benefit formula
Less than 25 years of membership service: 1.785% of HAC per year of service credit;
25 years of membership service or more: 2% of HAC per year of service credit

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of other adjustments to the member's benefit

At June 30, 2003 PERS had 521 participating employers, an increase of six from FY2002. The participating employers consist of:

PERS-DBRP EMPLOYERS

Employers	June 30, 2003	June 30, 2002
State Agencies	34	34
Counties	55	55
Cities and Towns	93	92
Colleges and Universities	5	5
School Districts	242	241
Other	92	88
Total	521	515

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2003 was 6.9% of PERS-covered payroll, the same as in fiscal year 2002. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a request for retirement or refund is processed. Each state agency and university system employer contributed 6.9% of PERS-covered payroll during fiscal years 2003 and 2002. Participating local governments and school district employers contributed 6.8% of PERS-covered payroll during fiscal years 2003 and 2002. The State contributed the remaining 0.1% for local governments and school employers from the state general fund in fiscal years 2003 and 2002. A percentage of the employers' contributions is used to fund the employee education program. (Reference Schedule of Contribution Rates on page 69).

Plan Membership Elections: MPERA has also included in the financial statements transfers of $5.5 million to Transfers to DCRP and $2 million to Transfers to ORP. These transfers reflect the DCRP and ORP contributions of participants that filed elections at or near the June 30th cutoff date but the contributions were moved in early fiscal year 2004.

Additional Service Purchase: A provision (19-2-706, MCA) related to the Employee Protection Act allows state and university system employees, who are eligible for a service retirement and whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. As of fiscal year 2003, two hundred seventy-seven employees had taken advantage of this provision since its inception, up from two hundred forty-seven in fiscal year 2002. The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. The retirement incentive contributions received (including interest) during fiscal years 2003 and 2002 totaled $371,473.40 and $144,782.00, respectively. The outstanding balance at June 30, 2003, totaled $380,314.60.

Public Employees' Retirement System-DBRP Education Fund: Education is provided to the members of PERS-DBRP and PERS-DCRP as governed by section 19-3-112, MCA. The education must be presented with impartial and balanced information about plan choices, investments and retirement planning. The education program consists of three primary components:
1) initial transfer education – complete as of July 1, 2003;
2) ongoing transfer education – for new hire members after the July 1, 2002 plan start date; and
3) ongoing investment/retirement planning education – for all active members.

The education program was funded by 0.04% of PERS-covered payroll in fiscal year 2003 and continues in fiscal year 2004.

Municipal Police Officers' Retirement System

Plan Description: The MPORS-defined benefit retirement plan was established in 1974 and is governed by Title 19, chapters 2 & 9 of the MCA. This plan covers all municipal police officers employed by first- and second-class cities and other cities that adopt the plan. Benefits are established by state law and can only be amended by the Legislature. The MPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights for death and disability are vested immediately. All other rights are vested after five years of service. A brief summary of eligibility and benefits follows:

MPORS Summary of Benefits

Member's final average compensation (FAC)
Hired prior to July 1, 1977 - average monthly compensation of final year of service;
Hired after June 30, 1977 - average monthly compensation for last consecutive 36 months

Years of service required and/or age eligible for benefit
20 years, regardless of age;
Age 50, 5 years of service

Vesting 5 years

Monthly benefit formula
2.5% of FAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed officer in the city that the member was last employed. If a member or retiree elected GABA, the minimum benefit is not available.

At June 30, 2003 MPORS had 22 participating employers, the same as in FY2002. The participating employers consist of:

MPORS EMPLOYERS

Employers	June 30, 2003	June 30, 2002
Cities and Towns	22	22
Total	22	22

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. Member contribution rates are dependent upon date of hire as a police officer. For fiscal years 2003 and 2002, member contributions as a percentage of salary were 5.8% (if employed on or before June 30, 1975); 7.0% (if employed after June 30, 1975 and prior to July 1, 1979); 8.5% (if employed after June 30, 1979 and prior to July 1, 1997); and, 9.0% (if employed on or after July 1, 1997 and for members electing GABA). Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Employer contributions to the retirement plan are 14.41% of total MPORS-covered payroll. The State contributions are requested at the beginning of the fiscal year based on the previous fiscal year compensation and are due no later than November 1. The State's contribution rate for 2003 and 2002 was 29.37%. (Reference Schedule of Contribution Rates on page 69).

Deferred Retirement Option Plan (DROP): Beginning July 2002, eligible members of MPORS can participate in the DROP by filing a one-time irrevocable election with the Board. The DROP is governed by Title 19, Chapter 9, Part 12, MCA. An eligible member must have completed at least five years of membership service and reached age 50 (amended by legislation in 2003 as stated below). They may elect to participate in the DROP for a minimum of one month and a maximum of five years and may participate in the DROP only once. A participant remains a member of the MPORS, but will not receive membership service or service credit in the system for the duration of the member's DROP period. During the participation in the DROP, all mandatory contributions continue to the retirement system. A monthly benefit is calculated based on salary and years of service to the date of the beginning of the DROP period. The monthly benefit is paid into the DROP account until the end of the DROP participation period. At the end of the DROP period, the participant may receive the balance of the DROP account in a lump-sum payment or in a direct rollover to another eligible plan, as allowed by the IRS. If the participant continues employment after the DROP period ends they will again accrue membership service and service credit. The DROP account cannot be distributed until employment is formally terminated.

Legislation in 2003 amended the previous DROP provisions so that a DROP participant must have 20 years of service to participate in the DROP. This legislative change became effective April 9, 2003. Members with 20 years of service and previously ineligible to participate in the DROP became eligible to retroactively apply for DROP benefits.

Game Wardens' and Peace Officers' Retirement System

Plan Description: The GWPORS is a multiple-employer, cost-sharing defined benefit plan established in 1963 and is governed by Title 19, chapters 2 & 8, MCA. This system provides retirement benefits to all persons employed as a game warden, warden supervisory personnel, or state peace officer. Benefits are established by state law and can only be amended by the Legislature. The GWPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows:

GWPORS Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months

Years of service required and/or age eligible for benefit
Age 50, 20 years of service;
Age 55, 5 years of service

Vesting 5 years

Monthly benefit formula
2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit

At June 30, 2003 GWPORS had eight participating employers, the same as FY2002. The participating employers consist of:

GWPORS EMPLOYERS

Employers	June 30, 2003	June 30, 2002
State Agencies	5	5
Colleges and Universities	3	3
Total	8	8

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for the first quarter of fiscal year 2002 was 8.5%. Effective the second quarter of fiscal year 2002 the contribution rate increased to 10.56% and continued throughout FY2003. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Each state agency and university employer contributed 9.0% of total GWPORS-covered payroll to the retirement plan during fiscal years 2003 and 2002. (Reference Schedule of Contribution Rates on page 69).

Additional Service Purchase: A provision (19-2-706, MCA) related to the Employee Protection Act allows state and university system employees, who are eligible for a service retirement and whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. No employees have taken advantage of this provision to date.

Actuarial Status: Legislation enacted in 2001 opened the GWPORS to all state peace officers. The active membership increased from 494 in fiscal year 2000 to 609 in fiscal year 2002. The increase in membership causes the need to reevaluate the actuarial assumptions. Changes to the actuarial assumptions will change the normal cost of the plan. Subsequent to the actuarial valuation of the Game Wardens' and Peace Officers' Retirement System (GWPORS), the actuary analyzed the impact of the transfer of employees of the Department of Corrections from the Public Employees' Retirement System to the GWPORS. The employee turnover assumptions for the 2002 actuarial valuation of GWPORS were set prior to the completion of the transfers. MPERA provided information to the actuary on the average turnover rate of employees of the Department of Corrections. If the 2002 GWPORS actuarial valuation had been performed using the revised employee turnover assumptions described in the actuarial letter to the MPERA dated January 20, 2003, GWPORS would likely have had a small Actuarial Surplus.

Sheriffs' Retirement System

Plan Description: The SRS is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974, and governed by Title 19, chapters 2 & 7, MCA. This plan provides retirement benefits to all Department of Justice criminal investigators hired after July 1, 1993, and to all Montana sheriffs. Benefits are established by state law and can only be amended by the Legislature. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits is on the following page:

SRS Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months

Years of service required and/or age eligible for benefit
20 years, regardless of age;
Age 50, 5 years of service, actuarially reduced

Vesting 5 years

Monthly benefit formula
2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit

At June 30, 2003 SRS had 56 participating employers, the same as FY2002. The participating employers consist of:

SRS EMPLOYERS

Employers	June 30, 2003	June 30, 2002
State Agencies	1	1
Counties	55	55
Total	56	56

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal years 2003 and 2002 was 9.245%. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Each employer contributed 9.535% of total SRS-covered payroll to the retirement plan during fiscal years 2003 and 2002. (Reference Schedule of Contribution Rates on page 69).

Additional Service Purchase: A provision (19-2-706, MCA) related to the Employee Protection Act allows state employees, who are eligible for a service retirement and whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. In fiscal year 2003, three employees took advantage of this provision since it's inception, up from two employees in fiscal year 2002. The retirement incentive contributions received (including interest) during fiscal years 2003 and 2002 totaled $32,999.79 and $44,180, respectively. The outstanding balance at June 30, 2003, totaled $71,426.13.

Judges' Retirement System

Plan Description: The JRS is a single-employer defined benefit plan established in 1967, and governed by Title 19, chapters 2 & 5 of the MCA. This system provides benefits for all Montana judges of the district courts, justices of the Supreme Court, and the Chief Water Judge. Benefits are established by state law and can only be amended by the Legislature. The JRS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows:

JRS Summary of Benefits

Member's current salary[1] or highest average compensation (HAC)[2]
[1]Hired prior to July 1, 1997 and non-GABA — monthly compensation at time of retirement;
[2]Hired after June 30, 1997 or electing GABA — HAC during any consecutive 36 months

Years of service required and/or age eligible for benefit
Age 60, 5 years of service;
Any age with 5 years of service — involuntary termination, actuarially reduced

Vesting 5 years

Monthly benefit formula
3 1/3% of current salary[1] (non-GABA) OR HAC[2] (GABA) per year of service for the first 15 years, plus 1.785% per year for each year after 15 years

Guaranteed Annual Benefit Adjustment (GABA)
Hired after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit

Minimum benefit adjustment (non-GABA)
Hired prior to July 1, 1997 - current salary is used in the calculation of the monthly benefit each time the Legislature increases salaries for active judges. This benefit is awarded only to non-GABA members or eligible contingent annuitants

At June 30, 2003 JRS had one participating employer, the same as FY2002. The participating employer consists of:

JRS EMPLOYERS

Employers	June 30, 2003	June 30, 2002
State Agencies	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal years 2003 and 2002 was 7.0% of the member's monthly compensation. Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. As the employer, the State contributed 25.81% of the total JRS-covered payroll to the retirement plan during fiscal years 2003 and 2002. (Reference Schedule of Contribution Rates on page 69).

Highway Patrol Officers' Retirement System

Plan Description: The HPORS is a single-employer, defined benefit plan established July 1, 1971, and governed by Title 19, chapters 2 & 6 of the MCA. This system provides retirement benefits to all members of the Montana Highway Patrol, including supervisory personnel. Benefits are established by state law and can only be amended by the Legislature. The HPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows:

HPORS Summary of Benefits

Member's highest average compensation (HAC)
Highest average compensation during any consecutive 36 months

Years of service required and/or age eligible for benefit
20 years of service, regardless of age;
5 years of service, actuarially reduced from age 60

Vesting 5 years

Monthly benefit formula
2.5% of HAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)
Hired after July 1, 1997, or those electing GABA - after the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit

Minimum benefit adjustment (non-GABA)
Hired prior to July 1, 1997 - monthly benefits for non-GABA members are increased each July when they fall below a statutorily guaranteed minimum. Any annual increase is limited to 5% over the current benefit and may not exceed 60% of the current base salary of a probationary officer

At June 30, 2003 HPORS had one participating employer, the same as FY2002. The participating employer consists of:

HPORS EMPLOYERS

Employers	June 30, 2003	June 30, 2002
State Agencies	1	1
Total	1	1

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rates for fiscal years 2003 and 2002 are 9.05% of the member's total compensation if hired after June 30, 1997 or for members electing GABA and 9.0% for those members hired prior to July 1, 1997 and not electing GABA. Contributions are deducted from each member's salary and remitted by the participating employer. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. As the employer, the State contributed 36.33% of the total HPORS-covered payroll during fiscal years 2003 and 2002. The first 26.15% is payable from the same source used to pay members' compensation. The remaining amount, equal to 10.18%, is payable from a portion of the fees collected from drivers' license and duplicate drivers' license applications. (Reference Schedule of Contribution Rates on page 69).

Twenty-five cents of each motor vehicle registration fee must be deposited in the HPORS trust fund by the end of each fiscal year. This additional contribution funds the supplemental lump-sum benefit for eligible recipients.

Additional Service Purchase: A provision (19-2-706, MCA) related to the Employee Protection Act allows state and university system employees, who are eligible for a service retirement and whose positions have been eliminated, to have their employer pay a portion of the total cost of purchasing up to three years of "1-for-5" additional service. The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. No employees have taken advantage of this provision to date.

Montana highway patrol officers retired prior to July 1, 1991, or their survivors, may be eligible for an annual supplemental lump-sum payment distributed each September. A portion of each motor vehicle registration fee funds this supplemental benefit. Many factors must be considered for eligibility, including the number of years the recipient has received a benefit and the recipient's age. The average annual supplemental payment in September 2003 was $2,292. In September 2002, the average annual supplemental payment was $2,231. This enhancement is available to non-GABA recipients only.

Firefighters' Unified Retirement System

Plan Description: The FURS is a multiple-employer, cost-sharing defined benefit plan established in 1981, and governed by Title 19, chapters 2 & 13, MCA. This system provides retirement benefits to firefighters employed by first- and second-class cities and other cities that adopt the plan and to firefighters hired by the Montana Air National Guard on or after October 1, 2001. Benefits are established by state law and can only be amended by the Legislature. The FURS provides retirement, disability and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and compensation. Member rights are vested after five years of service. A brief summary of eligibility and benefits follows:

FURS Summary of Benefits

Member's compensation
Hired prior to July 1, 1981 and not electing GABA - final monthly compensation (FMC);
Hired after June 30, 1981 and those electing GABA - final average compensation (FAC) for last consecutive 36 months

Years of service required and/or age eligible for benefit
20 years, regardless of age;
Age 50, 5 years of service

Vesting 5 years

Monthly benefit formula
Members hired prior to July 1, 1981 and not electing GABA are entitled to the greater of:
2.5% of FAC per year of service, OR
i) if less than 20 years of service,
2% of FMC for each year of service
ii) if more than 20 years of service,
50% of the member's FMC plus 2% of the member's FMC for each year of service over 20 years
Members hired after June 30, 1981 and those electing GABA:
2.5% of FAC per year of service

Guaranteed Annual Benefit Adjustment (GABA)
After the member has completed 12 full months of retirement, the member's benefit increases by a maximum of 3% each January, inclusive of all other adjustments to the member's benefit

Minimum benefit adjustment (non-GABA)
If hired before July 1, 1997 and member did not elect GABA, the monthly retirement, disability or survivor's benefit may not be less than ½ the compensation of a newly confirmed firefighter employed by the city that last employed the member (provided the member has at least 10 years of service credit). If a benefit falls below that minimum, the benefit is increased and paid to the benefit recipient. If a member or retiree elected GABA, the minimum benefit is not available.

At June 30, 2003 FURS had 16 participating employers, the same as FY2002. The participating employers consist of:

FURS EMPLOYERS

Employers	June 30, 2003	June 30, 2002
State Agencies	1	1
Cities and Towns	15	15
Total	16	16

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rates for fiscal years 2003 and 2002 are 9.5% for members hired prior to July 1, 1997, and 10.7% for members hired after June 30, 1997 and members electing GABA coverage. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is established for each member's contributions and interest allocations until a retirement or refund request is processed. Employer contribution rates for fiscal years 2003 and 2002 were 14.36% of the total FURS-covered payroll. The State contribution was 32.61% of total compensation for all covered firefighters in fiscal years 2003 and 2002. State contributions are requested at the beginning of each fiscal year based on previous fiscal year salary and are due no later than November 1. (Reference Schedule of Contribution Rates on page 69).

Volunteer Firefighters' Compensation Act

Plan Description: The VFCA is a statewide retirement and disability plan. This compensation plan, established in 1965, is governed by Title 19, chapters 2 & 17, MCA. Benefits are established by state law and can only be amended by the Legislature. The VFCA provides pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas, towns or villages under the laws of the State of Montana. VFCA also provides limited medical expenses for injuries incurred in the line of duty. Benefits are based on eligibility and years of service. The 2003 legislature amended the law so that members of the VFCA can accumulate more than 20 years of service beginning when they are age 55, if they already have 20 years of service (effective 7/1/2003). Member rights are vested after ten years of credited membership service. A brief summary of eligibility and benefits follows:

VFCA Summary of Benefits

Years of service required and/or age eligible for benefit
Age 55, 20 years of credited service;
Age 60, 10 years of service (partial benefit)

Vesting 10 years

Monthly benefit formula
$7.50 per year of credited service, maximum $150
If greater than 20 years of service (but not more than 30 years), maximum $225

Contributions: The State is the only contributor to the VFCA. Contributions are 5% of fire insurance premium taxes collected on certain fire risks. The State Auditor makes annual payments from the general fund to the Volunteer Firefighters' Pension Fund from fire insurance premiums. (Reference Schedule of Contribution Rates on page 69).

Group Insurance Payments: Supplemental payments are available to qualified volunteer fire companies that provide additional group medical insurance for their members in case of death or injury incurred while in the line of duty. The payment is made to the volunteer fire companies and is equal to $75 per year for each mobile firefighting unit owned by the volunteer fire company, up to a maximum of two units.

Public Employees' Retirement System-DCRP

Plan Description: The 1999 Legislature established a defined contribution retirement plan within the PERS known as the PERS-defined contribution retirement plan (DCRP). The PERS-DCRP is a multiple employer plan governed by Title 19, chapters 2 & 3, MCA and became available to all active PERS members effective July 1, 2002. The plan began receiving contributions or revenues after the July 1, 2002 implementation date.

The PERB has received a long-term loan from the Montana Department of Administration to fund the plan start-up/implementation costs. Authorization for the loan was provided by the Legislature, Chapter 471, Laws of 1999. As of June 30, 2002, the balance of the five draws taken by the MPERA totals $1,498,000 on this loan. The loan will be paid back over a period of ten years as discussed in Note C of the Financial Section.

There was an inter-entity loan on August 16, 2003 from the defined benefit education fund. This loan in the amount of $114,000 will be paid back over a period of two years and is also discussed in Note C of the Financial Section.

All new hires, initially, are members of the PERS-DBRP. New hires have a 12-month window during which they may choose to transfer to the PERS-DCRP or remain in the PERS-DBRP. Members may not be members of both the defined contribution and defined benefit retirement plans. The choice is irrevocable.

A diverse and broad range of investment options are available to members of the DCRP. The investment options offered within the plan are selected by the PERB with the assistance of the statutorily created Employee Investment Advisory Council (EIAC) and with the advice of a third-party investment analyst. Members of the DCRP will decide how to invest their contributions and a portion of their employer's contributions among the offered investment options. The remaining portion of employer's contributions will be used to maintain funding of the defined benefit plan, to provide disability benefits and to fund an employee education program. They will be able to invest in any number of the offered investment options and transfer between options, daily, if desired. The variable investment options cover all standard asset classes and categories and range from aggressive to conservative. The investment options are as follows:

PERS-DCRP Investment Options

International Stock Funds
American Funds New Perspective
SSGA International Growth Opportunities
Oakmark International

Small Company Stock Funds
Brown Capital Small Co Instl
Vanguard Small Cap Index Adm
Hotchkis & Wiley Small Cap Value

Mid-Sized Company Stock Funds
Artisan Mid Cap
Janus Mid Cap Value Investors

Large Company Stock Funds
American Funds Growth Fund A
Vanguard Equity-Income Adm
Vanguard Growth & Income Adm

Balanced Funds
Vanguard Balanced Index

Bond Funds
Vanguard Total Bond Market Index

Fixed Investment Options
DCRP Fixed Fund

The fixed investment option requires the services of three external providers who were selected through the State's competitive bidding process. The external providers are: Aegon, Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC). Aegon has a guaranteed investment contract (GIC) that provides a guarantee of principal and sets a quarterly rate of return based upon the investment manager's portfolio yield and duration. PIMCO, the investment manager, directs the investment of fixed assets. The fees charged by Great West and Aegon are classified as *Miscellaneous Expense*. Fixed assets are invested in the bond market in accordance with established guidelines for credit quality, duration and issue concentration. A brief summary of eligibility and benefits follows:

PERS-DCRP Summary of Benefits

Eligibility for Benefit
Termination of service

Vesting
Immediate for member's contributions and interest;
5 years for employer's contributions and interest

Benefit
Dependent upon individual account balance;
IRS permitted rollovers are also possible

At June 30, 2003 PERS-DCRP had 189 participating employers. There were no employers as of June 30, 2002 because the plan was implemented July 1, 2002.

PERS-DCRP EMPLOYERS

Employers	June 30, 2003	June 30, 2002
State Agencies	25	0
Counties	42	0
Cities and Towns	29	0
Colleges & Universities	4	0
School Districts	68	0
Other Agencies	21	0
Total	189	0

Contributions: Member and employer contribution rates are established by state law and may be amended only by the Legislature. The member contribution rate for fiscal year 2003 is 6.9% of member's compensation. The entire amount of the member's contribution is credited to the member's retirement account. Contributions are deducted from each member's salary and remitted by participating employers. An individual account is maintained by the third-party record keeper. Each state agency and university system employer contributes 6.9% of PERS-covered payroll beginning with fiscal year 2003. Participating local governments and school district employers contribute 6.8% of PERS-covered payroll. The State contributes the remaining 0.1% for local governments and school employers from the state general fund. The employer rate of 6.9% is allocated as follows: 4.19% allocated to the member's retirement account, 2.37% allocated to the defined benefit plan choice rate, 0.04% allocated to defined contribution education fund and 0.3% allocated to the long-term disability plan. (Reference Schedule of Contribution Rates on page 69).

Plan Membership Elections: MPERA has also included in the financial statements transfers of $3.5 million to member contributions and $2 million to employer contributions. These transfers reflect the DCRP contributions of participants that filed elections at or near the June 30th cutoff date but the contributions were moved in early fiscal year 2004.

DCRP Education Fund: Implemented July 1, 2002, the DCRP Education Fund (DCEd), as governed by section 19-3-112, MCA, provides education to the members that have joined the PERS-DCRP. The DCEd is funded by 0.04% of the employers' contribution.

DCRP Disability Fund: Implemented July 1, 2002, the DCRP Disability Fund (DC Disability), as governed by section 19-3-2117, MCA, will provide disability benefits to eligible members of the PERS-DCRP. The DC Disability is funded by 0.03% of the employers' contribution.

Deferred Compensation Plan (457)

Plan Description: The deferred compensation (457) plan is a voluntary supplemental defined contribution plan established in 1976. The deferred compensation plan is governed by Title 19, chapter 50, MCA, in accordance with Internal Revenue Service Code (IRC) §457. All employees of the State, the Montana University System and contracting political subdivisions, are eligible to participate. As of June 30, 2003 and 2002, the net assets of the deferred compensation plan were $208,341,039 and $196,420,108, respectively.

Assets of the deferred compensation plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries. Great West Life & Annuity Insurance Company is the third-party record keeper for the deferred compensation plan. Participants elect to defer a portion of their salary, within Internal Revenue Code limits. The deferred salary is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency while still employed and must meet IRS-specified criteria.

Plan participants direct their deferred salary into investment options offered within the plan. The investment options offered are selected by the PERB with the assistance of the statutorily-created Employee Investment Advisory Council (EIAC) and with the advice of a third-party investment analyst. Plan participants may invest in as many of the offered investment options as desired. The offered investment options fall into two primary types: (1) the fixed investment option and (2) the variable investment options. The investment options are as follows:

Deferred Compensation (457) Plan Investment Options

International Stock Funds
Artisan International
Janus Worldwide
Mutual Discovery Z
Templeton Foreign A

Small Company Stock Funds
Neuberger Berman Genesis
RS Diversified Growth

Mid-Sized Company Stock Funds
Artisan Mid Cap Investors
Strong Opportunity Inv

Large Company Stock Funds
Davis NY Venture A
Fidelity Contrafund
TCW Galileo Select Equities N
Vanguard 500 Index
Calvert Social Investors

Balanced Funds
Dodge & Cox Balanced
Janus Balanced

Bond Funds
Columbia High-Yield
PIMCO Total Return Admin

Fixed Investment Options
Montana Fixed Fund

Profile Funds
Aggressive
Moderately Aggressive
Moderate
Moderately Conservative
Conservative

The fixed investment option guarantees both principal (the deferred salary) and a quarterly rate of return. The fixed investment option requires the services of three external providers who were selected through the State's competitive bidding process. The external providers are: Aegon, Pacific Investment Management Company (PIMCO) and State Street Bank Kansas City (SSKC). Aegon has a guaranteed investment contract (GIC) that provides a guarantee of principal and sets a quarterly rate of return based upon the investment manager's portfolio yield and duration. PIMCO, the investment manager, directs the investment of fixed assets. Fixed assets are invested in the bond market in accordance with established guidelines for credit quality, duration and issue concentration. SSKC is PIMCO's custodial bank and holder of the fixed assets. SSKC exchanges the assets as directed by PIMCO.

The variable investment options include mutual funds and profile funds. All options range from aggressive to conservative. The mutual funds cover all standard asset classes and categories. The profile funds are preset funds that invest in underlying mutual funds to achieve a set objective such as time horizon or investment style.

In addition to the above investment options, plan participants previously had the option to direct a portion of their deferrals to a term life insurance policy provided through Allianz Life Insurance. The ability to invest in life insurance is allowed under the IRC and was offered to plan participants prior to life insurance being offered as a standard component of health insurance benefit packages. This investment option has been discontinued; however, plan participants who had previously or originally elected this option may continue.

Administrative expenses and the revenues that fund them are accounted for within the plan. The record keeper charges a fixed administrative fee for all plan participants. The fixed record-keeping fee, by contract, is a flat dollar amount. In the interest of equity among varying account balances the flat dollar amount fee is converted to a basis point (or percent) fee based on account balances. This ensures smaller accounts or new plan participants are not incurring more fees than larger accounts or long-term plan participants. On a quarterly basis, the contracted record keeper withholds the basis point fee from each plan participant's account. The basis point fees collected are reconciled to the contractual flat dollar amount and any fees withheld in excess of the contractual flat dollar fee are submitted to the PERB. Also submitted to the PERB are 12(b)(1) or reallotment fees from certain mutual fund companies. These fees are normally charged by the mutual funds for the purpose of individual record keeping. Because the mutual fund companies involved in the deferred compensation plan do not need to keep records of participants accounts, the fees are returned to the PERB. The PERB uses the excess and 12 (b)(1) fees to pay administrative expenses associated with the deferred compensation plan. These amounts are recorded as *Miscellaneous Revenue.*

Fees on the fixed investments are charged by each of the three providers. The fees are defined per each contract for specific services rendered. The fees charged by PIMCO and SSKC are classified as *Investment Expense*. The fees charged by Great West, Aegon and Allianz are classified as *Miscellaneous Expense.*

Mutual fund administrative costs are not presented on the financial statements. Mutual fund earnings are generally declared net of expenses in accordance with the Securities Exchange Commission and other regulatory authorities. Current reporting standards for mutual companies do not require costs to be made available in the detailed cost reports. A brief summary of eligibility and benefits is on the following page:

Deferred Compensation Plan Summary

Contribution
Voluntary, tax-deferred

Eligibility for Benefit
Not available to participant until separation from service; retirement; death; or upon an unforeseeable emergency, while still employed, provided IRS-specified criteria are met

Vesting
Participants are fully vested in their accounts at the time of deposit

Benefit
Lump sum or periodic benefit payment, at the option of the participant. Based on individual account balances and plan provisions. IRS permitted rollovers are also possible

At June 30, 2003 the deferred compensation plan had nine participating employers, an increase of one from FY2002. The participating employers consist of:

DEFERRED COMPENSATION EMPLOYERS

Employers	June 30, 2003	June 30, 2002
State of Montana *	1	1
Colleges and Universities	6	6
Other	2	1
Total	9	8

*The State of Montana includes 34 agencies; however, due to the nature of the reporting for the 457 plan we are unable to specifically determine which agencies participate.

Contributions: The deferred compensation plan is a voluntary, tax-deferred retirement plan designed to supplement retirement, Social Security and other retirement plans and savings. Participants designate the amount to contribute within IRS limitations. The deferred salary is withheld through payroll deduction prior to federal and state taxes. Social Security and Medicare taxes are withheld on the deferred salary. The contributions are either directed to the fixed investment or to any number of the available variable investments. The money designated as fixed is invested by PIMCO. The money designated as variable is remitted to the third-party record keeper who in turn invests the contributions in selected investments as directed by the participant.

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FY 2003 Schedule of Contribution Rates

System	Member	Employer	State
PERS-DBRP and PERS-DCRP	**6.9%** [19-3-315,MCA]	**6.9%** State & University **6.8%** Local Governments [19-3-316, MCA]	**0.1%** of local government payroll – paid from the General Fund [19-3-319, MCA]
MPORS	**5.8%** - hired prior to 07-01-75 & not electing GABA [19-9-710(a), MCA] **7.0%** - hired between 07-01-75 & 06-30-79 & not electing GABA [19-9-710(b), MCA] **8.5%** - hired between 07-01-79 & 06-30-97 & not electing GABA [19-9-710(c), MCA] **9.0%** - hired after 06-30-97 & members electing GABA [19-9-710(d), MCA]	**14.41%** [19-9-703, MCA]	**29.37%** of salaries – paid from the General Fund [19-9-702, MCA]
GWPORS	**10.56%** [19-8-502, MCA]	**9.0%** [19-8-504, MCA]	
SRS	**9.245%** [19-7-403, MCA]	**9.535%** [19-7-404, MCA]	
JRS	**7.0%** [19-5-402, MCA]	**25.81%** [19-5-404, MCA]	
HPORS	**9.0%** - hired prior to 07-01-97 & not electing GABA **9.05%** - electing GABA & new hires after 06-30-97 [19-6-402, MCA]	**26.15%** [19-6-404(1), MCA] **10.18%** of salaries – paid from drivers' license fees [19-6-404(2), MCA]	
FURS	**9.5%** - hired prior to 07-01-97 & not electing GABA [19-13-601(2)(a), MCA] **10.7%** - electing GABA & new hires after 06-30-97 [19-13-601(2)(b), MCA]	**14.36%** [19-13-605, MCA]	**32.61%** of salaries – paid from the General Fund [19-13-604, MCA]
VFCA			**5.0%** of fire insurance premiums, paid by the General Fund [19-17-301, MCA]

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Schedule of Funding Progress

(in thousands)

System	Actuarial Valuation Date	Actuarial Value of Assets[1] (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
PERS-DBRP[2]	06/30/98	$ 2,128,065	$ 2,300,328	$ 172,263	92.51%	$ 660,579	26.08%
	06/30/00	2,843,347	2,273,407	(569,940)	125.07	725,692	-78.54%
	06/30/02	**3,076,781**	**3,077,764**	**983**	**99.97**	**808,747**	**0.12%**
MPORS	06/30/98	94,908	173,642	78,734	54.66	17,873	440.52%
	06/30/00	129,826	181,109	51,283	71.68	20,252	253.22%
	06/30/02	**143,516**	**226,827**	**83,311**	**63.27**	**22,229**	**374.79%**
GWPORS	06/30/98	23,190	22,412	(778)	103.47	7,839	-9.92%
	06/30/00	32,966	23,922	(9,044)	137.81	11,875	-76.16%
	06/30/02	**38,730**	**39,109**	**379**	**99.03**	**17,151**	**2.21%**
SRS	06/30/98	92,160	81,077	(11,083)	113.67	20,127	-55.07%
	06/30/00	126,338	87,836	(38,502)	143.83	21,559	-178.59%
	06/30/02	**138,590**	**121,625**	**(16,965)**	**113.95**	**24,521**	**-69.19%**

Analysis of the dollar amounts of plan net assets, actuarial accrued liability, and unfunded actuarial accrued provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage percentage, the stronger the plan. Trends in the unfunded actuarial accrued liability and annual covered covered payroll approximately adjusts for the effects of inflation and aids analysis of the plan's progress stronger the plan.

[1]Refer to the "Notes to the Required Supplementary Information" for the Actuarial Asset Valuation Method (Page 74).

[2]PERS-DBRP Actuarial Valuation revised per audit recommendation.

System	Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
JRS	06/30/98	$ 31,646	$ 29,017	$ (2,629)	109.06%	$ 3,144	-83.62%
	06/30/00	42,043	27,365	(14,678)	153.64	3,483	-421.42%
	06/30/02	**44,963**	**30,882**	**(14,081)**	**145.60**	**4,000**	**-352.03%**
HPORS	06/30/98	59,531	78,722	19,191	75.62	6,201	309.48%
	06/30/00	77,810	76,397	(1,413)	101.85	6,952	-20.33%
	06/30/02	**81,734**	**94,850**	**13,116**	**86.17**	**7,536**	**174.04%**
FURS	06/30/98	89,988	169,006	79,017	53.25	15,104	523.15%
	06/30/00	123,492	162,329	38,837	76.08	16,549	234.68%
	06/30/02	**136,392**	**197,946**	**61,554**	**68.90**	**17,953**	**342.86%**
VFCA	06/30/98	13,941	18,354	4,412	75.96	N/A	N/A
	06/30/00	17,769	16,752	(1,017)	106.07	N/A	N/A
	06/30/02	**19,254**	**26,808**	**7,554**	**71.82**	**N/A**	**N/A**

Covered payroll is not applicable to VFCA because members are unpaid volunteers.

liability in isolation can be misleading. Expressing plan net assets as a percentage of the actuarial accrued liablity over time indicates whether the plan is becoming financially stronger or weaker. Generally, the greater this payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of annual made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the

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Schedule of Employer Contributions & Other Contributing Entities

System	Year Ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required State Contribution [3]	Percentage Contributed
PERS-DBRP [1]	1998	$ 45,690,886	99.26%	$ 303,840	100.00%
	1999	46,783,993	101.62%	341,099	100.00%
	2000	49,347,082	98.74%	347,560	100.00%
	2001	52,460,464	101.43%	382,481	100.00%
	2002	54,994,798	101.01%	373,721	100.00%
	2003	**57,724,802**	**99.13%**	**388,954**	**100.00%**
MPORS	1998	2,575,528	102.33%	5,264,852	100.00%
	1999	2,731,079	99.01%	5,566,398	100.18%
	2000	2,918,274	100.57%	5,947,932	99.35%
	2001	3,011,475	100.12%	6,137,893	100.16%
	2002	3,203,173	102.15%	6,528,604	100.02%
	2003	**3,355,991**	**104.35%**	**6,840,073**	**99.39%**
GWPORS [1]	1998	734,502	111.40%		
	1999	891,602	104.42%		
	2000	1,068,745	102.92%		
	2001	1,339,308	101.98%		
	2002	1,543,547	103.33%		
	2003	**1,803,149**	**101.77%**		
SRS [1]	1998	1,923,069	102.41%		
	1999	1,994,769	104.36%		
	2000	2,055,688	106.84%		
	2001	2,159,464	103.14%		
	2002	2,338,104	102.10%		
	2003	**2,435,269**	**101.65%**		

Refer to the "Notes to the Required Supplementary Information" (Page 74).

[1] A change was made to FY1998 for PERS, GWPORS, SRS, JRS and HPORS to correct contributions erroneously reported in FY1998.

[2] A change was made for HPORS to correct contributions erroneously reported in FY1999 that should have been FY1998.

[3] The Annual Required Contribution for MPORS and FURS is based on covered payroll, which includes payroll adjustments.

System	Year Ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required State Contribution [3]	Percentage Contributed	Annual Required Registration Fees	Percentage Contributed
JRS [1]	1998	$ 843,065	100.00%				
	1999	822,795	100.00%				
	2000	899,056	100.00%				
	2001	943,532	100.00%				
	2002	1,032,319	100.00%				
	2003	**1,052,361**	**100.00%**				
HPORS [1]	1998	2,336,018	102.52%			281,874	100.00%
[2]	1999	2,293,662	100.65%			285,095	100.00%
	2000	2,525,631	101.26%			279,577	100.00%
	2001	2,670,900	98.91%			335,107	100.00%
	2002	2,737,999	101.16%			308,973	100.00%
	2003	**2,836,992**	**101.02%**			**353,589**	**100.00%**
FURS	1998	2,168,902	98.77%	4,925,341	97.37%		
	1999	2,262,645	100.94%	5,138,222	98.77%		
	2000	2,376,392	97.86%	5,396,528	97.80%		
	2001	2,401,328	98.81%	5,453,155	98.45%		
	2002	2,578,021	97.80%	5,854,406	98.46%		
	2003	**2,672,133**	**104.87%**	**6,068,123**	**98.98%**		
VFCA	1998			928,484	100%		
	1999			944,434	100%		
	2000			961,306	100%		
	2001			1,002,992	100%		
	2002			1,133,741	100%		
	2003			**1,310,088**	**100%**		

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Notes to the Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of latest actuarial valuation follows:

	PERS-DBRP[1]	MPORS	GWPORS[1]
Valuation date	June 30, 2002	June 30, 2002	June 30, 2002
Actuarial cost method	Entry Age	Entry Age	Entry Age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open
Remaining amortization period in years:			
Unfunded Liability	0.1	19.6	30
Unfunded Credit [2]			
Asset valuation method	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
Actuarial assumptions:			
Investment rate of return compounded annually	8%	8%	8%
Projected salary increases			
Inflation	4.50%	4.50%	4.50%
Merit	0% - 6%	0% - 7.3%	0% - 7.3%
Benefit Adjustments			
GABA	3% after 1 yr	3% after 1 yr	3% after 1 yr
Non-GABA	N/A	50% newly confirmed officer	N/A

[1] The ongoing funding of the PERS-DBRP, GWPORS and SRS is being watched closely. The anticipated unfunded liability of the PERS-DBRP will likely be amortized in 30 years; the GWPORS and SRS are funded at the rates necessary to pay benefits but appear insufficient to pay off unfunded liability.

[2] Assets are larger than the past service liability – creating an unfunded credit; the credit is amortized over future costs.

SRS[1]	JRS	HPORS	FURS	VFCA
June 30, 2002	June 30, 2002	June 30, 2002	June 30, 2002	June 30, 2002
Entry Age	Entry Age	Entry Age	Entry Age	Entry Age
Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of payroll, open	Level percentage of revenue, open
		8.7	13.8	21
30	30			
4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market	4-Year smoothed market
8%	8%	8%	8%	8%
4.50%	4.50%	4.50%	4.50%	N/A
0% - 7.3%	None	0% - 7.3%	0% - 7.3%	N/A
3% after 1 yr	3% after 1 yr	3% after 1 yr	3% after 1 yr	N/A
N/A	Annual increase to salary of active member in like position	2% per yr service for newly confirmed officer	50% newly confirmed officer	N/A

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Supporting Schedule

Schedule of Administrative Expenses

Year Ended June 30, 2003

	Defined Benefit Plans	PERS-DBRP Education Fund	Defined Contribution PERS-DCRP	Defined Contribution 457 Plan
Personal Services				
Salaries	$ 816,267	$ 122,236	$ 207,295	$ 99,603
Board Members' Per Diem	5,893		2,350	758
Employee Benefits	216,533	31,950	53,244	26,950
Total Personal Services	1,038,693	154,186	262,889	127,311
Other Services				
Consulting Services	218,288	354,577	76,399	24,032
Legal Fees and Court Costs	10,857		605	262
Payroll Fees	560		121	56
Audit Fees	28,047		1,075	3,778
Medical Services	14,272			
Microfilming	5,137			
Records Storage	3,270		54	68
Pre-Retirement Seminars		1,500		
Computer Processing	123,944	936	34,209	4,579
Printing and Photocopy Charges	28,151	4,265	4,683	4,475
Warrant Writing Services	35,289		1,114	743
Other	10,535		3,156	1,420
Total Other Services	478,350	361,278	121,416	39,413
Communications				
Recruitment Costs	2,424	252	1,280	143
Postage and Mailing	84,115	40,153	2,847	9,378
Telephone	23,317	994	7,279	3,194
Total Communications	109,856	41,399	11,406	12,715
Other Expenses				
Supplies and Materials	35,943	524	8,992	3,620
Travel	20,205	17,332	11,643	8,182
Rent	131,846	2	39,504	17,774
Repairs and Maintenance	3,250		944	461
Depreciation/Amortization	462			
Compensated Absences	(605)	8,715	37,975	1,242
Interest Payments			45,779	
Miscellaneous	28,388	58	11,186	7,107
Total Other Expenses	219,489	26,631	156,023	38,386
Total Administrative Expenses	**$ 1,846,388**	**$ 583,494**	**$ 551,734**	**$ 217,825**

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Supporting Schedule

Schedule of Investment Expenses

Year Ended June 30, 2003

Plan	Investment Manager	Fees
PERS-DBRP	Board of Investments	$ 3,402,205
MPORS	Board of Investments	146,988
GWPORS	Board of Investments	41,394
SRS	Board of Investments	143,070
JRS	Board of Investments	45,872
HPORS	Board of Investments	82,494
FURS	Board of Investments	139,066
VFCA	Board of Investments	20,303
457	PIMCO	364,549
	State Street Bank	33,780
Total Investment Expense		**$ 4,419,721**

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Supporting Schedule

Schedule of Consultants

Year Ended June 30, 2003

Individual or Firm	Nature of Service	Amount Paid
Educational Technologies, Inc.	Education Consultants	$ 354,257
Computer Consulting Corporation	Computer Programming Services	183,189
Milliman USA	Actuarial Consultant	68,388
Arnerich Massena & Associates, Inc.	Mutual Funds Performance Review	32,950
Legislative Audit Division, Legislative Branch	Independent Auditors	32,900
BearingPoint	Web Reporting Systems Development	15,210
Communications & Management Service	Human Resources Consulting	11,075
Lawrence R. McEvoy, MD	Medical Consultant	6,903
William M. Mercer, Inc.	PERS-DCRP Implementation Consultants	3,980
Legal Services Division, Department of Justice	Legal Services	2,725
Professional Development Center, Department of Administration	Retirement Planning Seminars	1,500

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Detail of Fiduciary Net Assets (PERS-DBRP and PERS-DBEd)
as of June 30, 2003

	PERS-DBRP	PERS-DBEd	TOTAL
Assets			
Cash and Short-term Investments	$ 79,499,147	$ 551,922	$ 80,051,069
Securities Lending Collateral	90,288,753		90,288,753
Receivables			
Interest	11,388,163		11,388,163
Accounts Receivable	4,229,597		4,229,597
Due from Other Funds	215,048		215,048
Due from Primary Government	45,748	211	45,959
Notes Receivable	380,315		380,315
Total Receivables	16,258,871	211	16,259,082
Investments, at fair value			
Montana Domestic Equity Pool (MDEP)	1,308,883,763		1,308,883,763
Retirement Fund Bond Pool (RFBP)	804,470,236		804,470,236
Montana International Pool (MTIP)	225,346,965		225,346,965
Montana Private Equity Pool (MPEP)	150,960,074		150,960,074
Equity Index Fund	17		17
Real Estate Investments	7,246,333		7,246,333
Mortgages & Commercial Loans net of Accumulated Mortgage Discount	112,078,541		112,078,541
Total Investments	2,608,985,929		2,608,985,929
Property and Equipment, at cost, net of Accumulated Depreciation	1,898		1,898
Total Assets	2,795,034,598	552,133	2,795,586,731
Liabilities			
Securities Lending Collateral Liability	90,288,753		90,288,753
Accounts Payable	2,884,640	5,624	2,890,264
Due to Other Funds	5,500,000	12,947	5,512,947
Due to Primary Government	46,190	3,387	49,577
Deferred Revenue	243,323		243,323
Compensated Absences	225,426	14,126	239,552
Total Liabilities	99,188,332	36,084	99,224,416
Net Assets Held in Trust for Pension Benefits	**$ 2,695,846,266**	**$ 516,049**	**$ 2,696,362,315**

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Detail of Changes in Fiduciary Net Assets (PERS-DBRP and PERS-DBEd)

for the Fiscal Year Ended June 30, 2003

	PERS-DBRP	PERS-DBEd	TOTAL
Additions			
Contributions			
Employer	$ 56,882,450	$ 342,563	$ 57,225,013
Plan Member	61,749,963		61,749,963
Membership Fees	161		161
Interest Reserve Buyback	878,256		878,256
Retirement Incentive Program	371,473		371,473
Miscellaneous Revenue	649	211	860
State Contributions	388,954		388,954
Total Contributions	120,271,906	342,774	120,614,680
Investment Income			
Net Appreciation (Depreciation) in Fair Value of Investments	53,192,946		53,192,946
Interest	102,169,076	10,374	102,179,450
Dividends	15,050,658		15,050,658
Securities Lending Income	1,628,745		1,628,745
	172,041,425	10,374	172,051,799
Less:			
Investment Expense	3,402,205		3,402,205
Securities Lending Rebate and Fees	1,318,407		1,318,407
	4,720,612		4,720,612
Net Investment Income	167,320,813	10,374	167,331,187
Total Additions	287,592,719	353,148	287,945,867
Deductions			
Benefits	122,203,686		122,203,686
Refunds to Members	10,218,257		10,218,257
Refunds to Other Plans	228,340		228,340
Transfers to DCRP	15,990,427		15,990,427
Transfers to ORP	5,957,197		5,957,197
Administrative Expenses	1,670,320	583,494	2,253,814
Total Deductions	156,268,227	583,494	156,851,721
Net Increase (Decrease)	131,324,492	(230,346)	131,094,146
Net Assets Held in Trust for Pension Benefits			
Beginning of Year	2,564,499,473	768,696	2,565,268,169
End of Year	**$ 2,695,823,965**	**$ 538,350**	**$ 2,696,362,315**

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Detail of Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability)

as of June 30, 2003

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY	TOTAL
Assets				
Cash and Short-term Investments	$ 1,693,843	$ 8,048	$ 43,458	$ 1,745,349
Receivables				
Accounts Receivable	48	122		170
Due from Other Funds	5,500,000			5,500,000
Due from Primary Government	95			95
Total Receivables	5,500,143	122		5,500,265
Investments, at fair value				
Defined Contributions Fixed Investments	407,489			407,489
Defined Contributions Variable Investments	8,831,476			8,831,476
Total Investments	9,238,965			9,238,965
Total Assets	16,432,951	8,170	43,458	16,484,579
Liabilities				
Accounts Payable	33,309			33,309
Due to Other Funds	19,267	408		19,675
Due to Primary Government	6,609			6,609
Notes Payable	1,498,000			1,498,000
Compensated Absences	43,283	3,285		46,568
Total Liabilities	1,600,468	3,693		1,604,161
Net Assets Held in Trust for Pension Benefits	**$ 14,832,483**	**$ 4,477**	**$ 43,458**	**$ 14,880,418**

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Detail of Changes in Fiduciary Net Assets (PERS-DCRP, PERS-DCEd and PERS-DC Disability)

for the Fiscal Year Ended June 30, 2003

	PERS-DCRP	PERS-DCEd	PERS-DC DISABILITY	TOTAL
Additions				
Contributions				
Employer	$ 6,077,014	$ 9,541	$ 43,354	$ 6,129,909
Plan Member	10,389,320			10,389,320
Miscellaneous Revenue	661			661
Forfeiture of Nonvested Member	31,188			31,188
Total Contributions	16,498,183	9,541	43,354	16,551,078
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	439,327			439,327
Interest	111,418	13	104	111,535
Net Investment Income	550,745	13	104	550,862
Total Additions	17,048,928	9,554	43,458	17,101,940
Deductions				
Refunds to Members	628,884			628,884
Administrative Expenses	546,657	5,077		551,734
Miscellaneous Expenses	14,156			14,156
Total Deductions	1,189,697	5,077		1,194,774
Net Increase (Decrease)	15,859,231	4,477	43,458	15,907,166
Net Assets Held in Trust for Pension Benefits				
Beginning of Year	(1,026,748)			(1,026,748)
End of Year	**$ 14,832,483**	**$ 4,477**	**$ 43,458**	**$ 14,880,418**